Ownership & Operations of Gentle Density Housing

Guidance Paper for Local and Provincial Government and Industry Partners

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small housing

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- Caela Regalado, *Birds Nest Properties*
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- Taj Sandhu, *WBI New Home Warranty*
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The recommendations presented in this guidance paper do not necessarily reflect the views of the individual roundtable participants or the organizations they represent.

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Executive Summary

This guidance paper addresses the ownership and operations of gentle density housing in British Columbia. It was created in collaboration with industry experts and includes key recommendations to remove barriers that reduce the viability and uptake of gentle density housing.

Gentle density housing refers to incrementally increasing the number and variety of ground-oriented homes in traditionally single-detached neighbourhoods. This approach creates more homes while efficiently utilizing existing land and infrastructure. The Province's "Homes for People Plan" made significant progress in reducing zoning and municipal barriers to creating gentle density homes, however, barriers still exist in the planning and operations phases for many homeowner-developers.

A roundtable of industry experts was convened to discuss challenges and opportunities faced by homeowner-developers developing and operating gentle density housing. As a result of the roundtable, this guidance paper was produced to provide an overview of the topics discussed and to provide actionable recommendations directed at various levels of government, regulatory bodies, and key industry stakeholders. These recommendations include efficient tax and estate planning strategies for the homeowner-developer, changes to financial and tax regulations, education and training for homeowner-developers, and regulation changes to assist in efficient property management.

The actionable recommendations contained in this guidance paper provide specific and clear direction to the responsible parties on how they can support the removal of barriers and enhance the viability of gentle density projects for the homeowner-developer in British Columbia. Supporting and incentivising homeowner-developer-led projects is, in the opinion of the roundtable, the most likely model to succeed at implementation at scale, while putting community and affordability first.

Background

Gentle density is a form of housing development that focuses on incrementally increasing the number and variety of ground-oriented homes in traditionally single-detached neighbourhoods. Traditional zoning in many neighbourhoods often consists of large lots with a solitary single family home, resulting in underutilization of valuable land resources.

Gentle density proposes to invite more households into single-detached neighbourhoods, creating more homes. It can do so by slightly building out existing lots to include not just a single home, but a home and a laneway home or backyard duplex, for example, or a site can be redeveloped entirely to include multiplexes like triplexes, fourplexes, or infill row houses.

Gentle density housing is a solution to housing our growing population in more environmentally efficient ways - with smaller format homes, in existing residential areas, leveraging private land and private capital to grow much-needed housing stock.

In November of 2023, the province released their "Homes for People Plan" that drastically reduced zoning and municipal barriers to the creation of gentle density homes. In summary, new legislation requires all local governments in British Columbia to update their zoning bylaws to allow up to three to four units in all single-family zones and up to six units for properties with frequent bus service. This will apply within urban containment boundaries and for all municipalities over 5,000 people. While zoning and regulatory reforms are crucial for increasing housing supply, other obstacles must be addressed to facilitate new gentle density housing development across the province. This important step forward allows for the widespread adoption of gentle density housing types.

To achieve successful implementation of gentle density housing, it is anticipated that the primary model for development will be a Homeowner-Developer. Not only will this model be key to preserving the fabric of the existing neighbourhood, it will also increase the viability of gentle density development by eliminating significant costs associated with acquisition and financing that a typical developer would incur. However, development at any scale comes with considerable risks that need to be well-managed and well-understood. In order for this model to flourish, additional capacity building and educational resources are needed to support new homeowner-developers and their prospective partners, which in many cases could be their homebuilder. From our work so far, we understand the industry is keen to learn more about gentle density development and how homebuilders and trades can

Acronyms and Terms

Gentle Density Housing (GDH)

A general term referring to 2-6 units on an existing single-detached zoned property.

Small-Scale Multi-Unit Housing (SSMUH)

The Province of BC's chosen term referring to a range of buildings and housing units that can provide attainable housing for middle-income families. Examples of small-scale, multi-unit housing include:

- Secondary suites in single-family dwellings
- Detached accessory dwelling units (ADUs), like garden suites or laneway homes
- Triplexes
- Townhomes
- House-plexes

SSMUH will be the term used when referring to any BC Legislation and compliance in this guidance paper.

deliver successful projects for themselves, their clients and communities. In February 2024, Small Housing and HAVAN (Homebuilders Association of Vancouver), delivered a sold-out course for homebuilders on gentle density projects. The feedback from those that attended and those that wish to attend the next event clearly demonstrates a keen interest in this topic from the industry and a need for further industry educational resources.

Through significant consultation with the industry and interested community members, it has been identified that there is great uncertainty around the post-construction lifecycle of gentle density projects: Are the new homes to be rented or sold? What are the risks, responsibilities, and obligations under both models? What tools or resources exist to support smooth the transition to occupancy and ongoing management of the property?

The purpose of convening this roundtable was to examine how to establish a roadmap for owner-developers who wish to continue living on their property post-development in one of the newly created units. After a focused discussion of the following questions, roundtable participants generated actionable recommendations directed to various levels of government, regulatory bodies, and key stakeholders, in support of the new gentle density housing initiative.

Bill 44: Enabling small-scale, multi-unit housing

Small-scale, multi-unit housing offers housing options that are ground-oriented and compatible in scale and form within established single-family neighbourhoods. These housing forms typically offer more family-oriented units than larger-scale multi-family housing and more affordable options than single-family dwellings.

While the legislation establishes the framework for the new rules, the details describing how these changes work in practicality are set out in regulation, and site standards and expectations around development are laid out in a Provincial policy manual.

1. **Secondary suites and/or accessory dwelling units** are allowed province-wide in all single-family residential zones, in all municipalities and regional district electoral areas.
2. **3-4 Units in single family zones** *(apply within urban containment boundaries and municipalities over 5,000 people)*. Three to four units of small-scale, multi-unit housing must be permitted on each parcel of land, if zoned exclusively for single-family or duplex residential.
3. **6 Units near frequent bus service.** Six units of small-scale, multi-unit housing must be allowed near frequent bus service on single-family and duplex residential lots that are greater than 280 m² and within a municipality or regional district with a minimum population of 5,000.

Scenario #1

Example Scenario of an Owner-Developer

In this guidance paper, we explore the case of an Owner-Developer, in our case, a couple that has lived and raised a family in their home over the last 10-15 years.

Their housing needs are evolving and they are interested in creating a new home for themselves, their children, and potentially others in the community on their large single family lot. They have paid down a significant amount of their original mortgage, and have seen exponential growth in their property's market value over the course of ownership. They could sell and move elsewhere, but wish to stay connected to their community, while creating new housing opportunities for their family and unlocking the accrued equity in their home.

We wish to explore their journey as they decide whether to develop and determine whether to retain ownership of the additional newly created units as a rental or stratify and sell.

Topic 1: Homeowner-Developer - Key Considerations for Development

With the above scenario in mind and our work to date in reviewing the viability of gentle density housing across several communities in British Columbia, we understand that the optimal way to drive affordability with this type of development is with a homeowner-led approach. During the roundtable discussion, it was agreed upon that in order for the development of this type of housing to become economically feasible and beneficial to existing homeowners, there need to be better established pathways and incentives for homeowners to develop the property themselves, rather than selling to a developer. This involves looking at how the following factors can be streamlined to improve the viability of homeowner-led SSMUH development.

1.1. Estate & Family Planning

For many homeowners considering the next stage of their existing single family home, and the potential of redevelopment with additional gentle density, effective estate and family planning are paramount. For many British Columbian homeowners, their principal residence has seen exponential growth in market value; the capital gain on the principal residence is exempt from taxation. This accrued equity is often considered to be a significant portion of the savings needed for retirement and part of what is earmarked to be passed down to the family's next generation. As homeowners consider the upcoming zoning changes in Bill 44, there are significant opportunities to create housing units for themselves and family, convert the accrued equity into cash via development, or create income producing assets on their existing single-family home property.

In a study completed by National Van Lines, the percentage of people moving to live closer to family in the United States from 2019 to 2021 rose by 72.9%. Statistics specifically for B.C. were unavailable at the time of writing, but based on socio-economic and cultural similarities, it can be approximated that a similar trend exists within Canada and British Columbia. Living closer to or with family helps to foster a greater sense of community, has significant benefits when raising young children, and can increase affordability. In many cultures, multi-generational housing is commonplace, however, this has not been the historic North American norm, particularly in the post-war era. However, as noted by the American Association of Retired People (AARP):

> *"Rates of multigenerational living have been increasing for decades, from a low in the 1980s. One reason is economic: During the Great Recession, there was a rapid increase in the number of multigenerational households. Likewise, young adults have been living longer with parents or other family members because of the high cost of housing."*

Gentle density housing is expected to further this trend by answering the affordability issue, while creating individual private spaces in close proximity to family members, in a multi-generational example.

1.2. Aging In Place

Aging in Place is a significant contributor for homeowners looking to remain in their homes and communities as they age into retirement and their next stages in life. Building off of the increase in multi-generational housing noted above, for many seniors, this also means living in close proximity to caregivers, which can be a paramount concern depending on the availability of other at-home service providers in their community. Based on the Perspectives on Growing Older in Canada: The 2023 National Institute on Ageing (NIA) in Canada Survey, 88% of Canadians aged 50 and older wish to age in place as long as possible, and the rate of preference increases to 96% for those aged 80 and older. This strong preference cannot be ignored, but there are also significant improvements to existing living conditions needed in order to help make this a reality. Ground oriented, single-level living spaces that accommodate mobility devices and accessible-featured can be elegantly designed into SSMUH with a minimal increase in costs. Based on a retrofit and upgrade cost study in February 2024 for the Rick Hansen Foundation, it was found that commercial buildings such as schools could achieve a Gold Rick Hansen Foundation Accessibility Certification for $9.00/square foot. From discussions with the construction industry, it is expected that this rate could be applied across typical SSMUH units to estimate upgrade costs. For example, this allowance would be applied to features such as improved lighting, grab bars, accessible millwork features, washroom fixtures and auto-operator doors. Improvements such as elevators or lifts would be site and case specific. Achieving this level of accessibility for ground-oriented housing represents a modest cost increase, but significantly enhances the opportunity for aging in place and creates additional housing opportunities for those living with mobility challenges. The ability to sell or rent out a portion of the property would also create an opportunity to fund increased in-home care, making redevelopment and remaining on the property economically and practically viable.

1.3. Capital Gains

The capital gain on a residential property in Canada is exempt from taxation if the home is considered an individual/or family's principal residence. Claiming this exemption when selling your principal residence is straightforward, but how an owner-developer will be taxed on their gain, should they redevelop into multiple units, becomes more challenging. The issue is that the simplest way to ensure you are not unjustly taxed on the appreciation of value in your principal residence is to either sell your property to a developer and walk away, or sell it to a development-specific entity that you create. The first option means that homeowners are not only giving up their property, and potentially their neighbourhood connections and social supports, but also missing out on the potential additional financial gain available to them if they are involved in the property's development. If they wish to co-develop with family members, they can add them to the title without triggering Property Transfer Tax (PPT) if done prior to redevelopment. A second option - if redeveloped then transferred to family or other parties, PTT is payable on the post-subdivision/strata-titling, and there are significant tax liabilities with this approach.

The current Canada Revenue Agency (CRA) regulations on principal residences are as follows:

> *2.58 The deemed disposition rule described in ¶2.57 applies where the partial change in use of the property is substantial and of a more permanent nature, that is, where there is a structural change. Examples where this occurs are the conversion of the front half of a house into a store, the conversion of a portion of a house into a self-contained domestic establishment for earning rental income (a duplex, triplex, etc.), and alterations to a house to accommodate separate business premises. In these and similar cases, the taxpayer reports the income and may claim the expenses pertaining to the altered portion of the property (that is, a reasonable portion of the expenses relating to the whole property) as well as CCA on such altered portion of the property.*

As currently written, there are mechanisms for preserving the capital gains exemption for the conversion of an existing structure into multiple units. Further direction and clarification from the CRA is needed in the case of redevelopment, specifically demolition and new construction, of the property to an income-producing use such as a new multiplex building.

Scenario #2

Two parents and their two adult children wish to partner to redevelop the family home into a four-plex. (One unit for the parents, one unit per child, and shared ownership over the 4th unit that will be used as a rental.

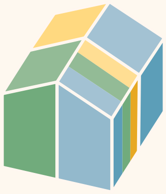
Option #1: Joint Tenants

All parties share 100% of the ownership over the title and mortgage/loan amount

100% each

Option #2: Tenants in Common

All parties are assigned a proportionate ownership over the property and the loan amount.



25% + 8.25% each

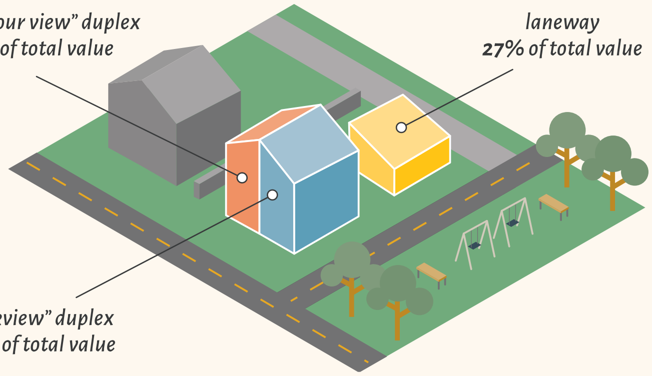
1.4. Financing & Sharing of Debt

In cases where individuals or family members are looking to combine resources to co-purchase or develop a property for gentle density housing, the sharing of debt can be a barrier to the creation of gentle density homes. As noted in Scenario #2 if two parents wish to partner with their adult children to redevelop their property to create multiple units for each family member to own, and each party wishes to be on title as Joint Tenants, each party would be responsible for the full amount of the loan (that is to say that the full loan amount is noted on each of the parties' credit reports). This can cause challenges for the respective parties as it is often the case that the parties have varied levels of debt service capacity and equity that can be contributed to the property. Additionally, having a significant amount of debt to service noted on each of the parties' credit reports, even though they may be one of four individuals responsible for the loan amounts, will significantly reduce (or eliminate) their ability to qualify for additional loans for other personal needs.

However, alternatives to co-ownership arrangements are also possible, and there is opportunity to divide the title proportionate to each individual's share in the property, using a Tenants in Common approach. This approach allows divided interest on the title proportionate to each party's interest. This will alleviate unproportional debt servicing for the individuals that are part of the redevelopment, however additional care is needed as not all units in the completed development will have identical values and the proportionate share will, more often than not, need to be readjusted to suit the end property's proportionate share. For example, three family members purchase a property to develop a laneway home and a street facing duplex and decide to each take a proportionate share of the title. The two sides to a duplex may be identical, but one has an unobstructed south-facing view over to the adjacent park, while the other does not; the laneway home, although roughly the same livable area as a half duplex unit, may have a larger private outdoor space. A subsequent appraisal would need to be completed prior to construction financing to reassign the proportionate value that each party is receiving or responsible for post-development.

Scenario #3 - Proportionate Ownership of Units Relative to Appraised Value

Three family members are looking to develop a 3-unit project and due to the configuration and property configuration, the appraised value of each unit is not fairly split ⅓ of the total project value.



The large majority of homeowners have no real estate development experience; this means that the lending community is being asked to manage and take on significant financial risk to assist with creating new and affordable housing across the Province. The small overall project values in gentle density development projects leave proportional profit and contingencies, which when compared to large multi-family projects, don't leave significant margins to absorb any revenue drops and/or project cost escalations to the same degree as a larger project. As zoning regulations are being amended to more readily enable gentle density homes, an equally important conversation is needed with the financial institutions that will be tasked with funding these projects. In order to support lender confidence and risk mitigation in working with first-time developers at this stage, further discussions with the Province and Federal Governments around the backstopping of qualified borrowers will be critical in supporting the availability of financing and the level of gentle density housing development uptake.

1.5. Education and Awareness Building: Public and Industry

The Province's new SSMUH legislation has attracted a fair share of media attention as housing affordability and homeownership is a top priority for many British Columbians. The media coverage has brought gentle density housing to the forefront of people's minds when they imagine what their neighbourhoods could look like in the coming years, however there is still a significant knowledge gap within the industry of how to turn this vision into reality. In order for gentle density projects to occur, the development industry must gain a better understanding of the nuances and intricacies of these types of projects. Increased training and resources will be needed by industry as they are often the first resources homeowners will engage when determining the next steps for their property. While parcel acquisition by large corporations will inevitably continue, homeowner involvement is critical to the uptake of gentle density development and the legislation's success overall. Homeowners not only have a vested interest in the project's timelines and a desire to deliver a project welcomed in their neighbourhood, their knowledge of and involvement in the community is irreplaceable. Awareness building and training will need to involve all aspects of industry, such as general contractors, project managers, architects, engineers, designers, trade contractors, real estate agents and lawyers, mortgage brokers and financial institutions, construction and home insurers, and appraisers. Additional collaboration with the Province and local governments to assist in leveling-up the industry awareness and knowledge base of how to successfully plan, execute, and operate a gentle density project is paramount.

Topic 1: Homeowner-Developer - Key Considerations for Development Summary		
Impact	**Actionable Recommendations**	**Governing Party**
High	Allow Principal Residence Exemption for Capital Gains to be applied proportionate to appraised values to overall gain, post redevelopment of the original title	Canada Revenue Agency (CRA)
High	Support the development of a How-to-Guide for Gentle Density / SSMUH Projects, for Owners & Industry	BC Ministry of Housing, Federal Minister of Housing, Infrastructure and Communities
High	Update the British Columbia Financial Services Authority (BCFSA) Policy which limits retail loans to 4 units. Revise to allow up to and including 6 units under retail lending to align with Bill 44	British Columbia Financial Services Authority (BCFSA), BC Ministry of Finance
High	Pursue Loan Guarantee Program for Owner-Developers of SSMUH, in coordination with financial institutions	Canadian Mortgage and Housing Corporation (CHMC), BC Housing Management Commission (BC Housing)
High	Support Industry upskilling for general contractors, project managers, architects, engineers, designers, trade contractors, real estate agents and lawyers, mortgage brokers and financial institutions, construction and home insurers, and appraisers for gentle density / SSMUH projects.	Canadian Mortgage and Housing Corporation (CMHC), BC Ministry of Housing, BC Ministry of Education, Industry; Canadian Home Builders Association (CHBA), Architectural Institute of British Columbia (AIBC), Engineers and Geoscientists BC (EGBC), British Columbia Real Estate Association (BCREA), Appraisal Institute of Canada - BC (AIC-BC), Small Housing BC
Medium	Improved Grants, Funding and/or Tax abatement for increased adaptability and accessibility in gentle density and SSMUH forms to promote aging in place and enhance housing options for individuals with mobility challenges.	Canadian Mortgage and Housing Corporation (CMHC), British Columbia Housing Management Commission (BC Housing), and Local Governments
Medium	Improved Design Resources & Training for Accessible Design Principles for Architects, Designers, and Builders, with a focus on GDH typologies	Canadian Mortgage and Housing Corporation (CMHC), British Columbia Housing Management Commission (BC Housing), Industry; Canadian Home Builders Association (CHBA), Architectural Institute of British Columbia (AIBC), Small Housing BC

Legislative Changes | Capacity Building Resources | Further Research/Dialogue

Topic 2: Purpose-Built Rental

For homeowners that are looking to redevelop their property with gentle density housing projects, a purpose-built rental property can create a long term and sustainable investment, while keeping capital invested locally. The demand for this kind of property is high. Based on the Canadian Rental Housing Index which utilizes 2021 Canadian Census Data, there are 660,325 renter households in British Columbia. 38% of those households are spending more than 30% of their income on rent and utilities. CMHC notes a provincial vacancy rate of 1.2%, which, paired with elevated interest rates over the last two years, has led to continued strong demand for rental units across the Province. Residential real estate investments are highly regulated by the province of British Columbia, including through the Residential Tenancy Act, Personal Information Protection Act, the Human Rights Code, and local municipal regulation of building maintenance standards. These regulations can be overwhelming for small-scale landlords, and excessive regulation can create barriers to entry for an otherwise viable small-scale residential real estate investment. If the barriers to simple and fair management of rental units are not appropriately managed, many properties will likely revert back to market sale, or be susceptible to acquisition by larger entities looking to build portfolios of small rental properties.

2.1 Rental Property Management

Small-scale residential rental investments are typically self-managed by owners, but there is an increasing trend towards the use of property management services from professionally licensed managers who specialize in these kinds of properties.

A rental property manager manages tenant placement and engagement over the course of the lease in exchange for a fee that is typically based upon a percentage of rent collected. Professional management not only reduces an owner's responsibilities significantly, but managers in the small-scale residential context can also play an important role as a dispute resolution buffer between the landlord and tenant. This is particularly important when the landlord lives onsite as a neighbour. That said, it remains the case that most small-scale residential real estate investments are self-managed, and this option will have to remain viable for homeowners interested in this type of investment.

When a property is self-managed, it is up to the homeowner to manage tenant placement as well as the ongoing relationship. A significant barrier to entry is access to education for good property management practices. Access to education is fragmented, but has improved in the past decade, with comprehensive resources that include the Residential Tenancy Branch and organizations like LandlordBC.

2.2. Forecasting Operating Budgets & "House" Costs

New landlords wanting to own and operate a small-scale residential property rarely prepare formal operating budgets. However, creating an accurate forecast of costs is essential to the long term viability of the rental property, particularly in British Columbia where there is rent control. Although rent control may stabilize short-term volatile rental market activity, it comes at the cost of disproportionately burdening small-scale property owners who are unable to recover extraordinary increases in costs that are outside of their control. Rent control also erodes the viability of the investment in the long-term when operating costs and the cost of capital increases at a higher rate than permitted by rent control. If viability of small scale rental is constrained, rental properties are likely to be sold for owner-occupied use, thus removing the unit from the rental pool.

In addition to budgeting education and resources being made available to small-scale landlords, as long as there is rent control, further improvements are needed to the Additional Rent Increase regime under the Residential Tenancy Act. This regime, which is intended to help landlords recover extraordinary costs of operating rental property, is not easily accessible to landlords of small rental properties. This is because of its complexity and because the circumstances when it is available are extremely limited.

2.3. Tenancy Considerations

For Owner-Developers pursuing the creation of a gentle density rental property, managing tenants and navigating the current regulations and market conditions can be a daunting task. In 2017, the Provincial Government ended fixed-term tenancies with the aim of eliminating a practice engaged in by a minority of landlords who used progressive fixed term tenancies to avoid rent control. However, for many new landlords, especially those that wish to live in close proximity to their tenants in a gentle density property, this has created a new problem of deterring investment in rental housing by small-scale landlords, who have greater risk exposure to vacancy, bad debt, and potentially high conflict tenancies compared to larger professional landlords. Good regulation can balance the legitimate concerns of new landlords with the laudable goal of preventing unscrupulous landlords from abusing fixed term tenancies to avoid rent control. Middle ground exists between regulation that deters this practice without removing fixed term tenancies altogether.

The ability to enter into a fixed-term tenancy requiring the tenant to vacate at the end of the fixed term also opens up opportunities, for example, for homeowners to rent to students, while keeping the property open for visiting family members during the summer months. Ultimately, the purpose of relaxing this restriction on fixed term tenancies is to encourage investment in small-scale residential real estate investment, which faces different challenges than institutional-grade residential real estate investments do.

2.4. Warranty / Legal Obligations

The British Columbia Homeowner Protection Act provides a regulatory framework for new home construction, primarily focused on for-sale projects, but it contains several key aspects that are important to consider for purpose-built rentals. The British Columbia Homeowner Protection Act, which came into effect in July of 1998, requires all new homes built in British Columbia to be covered by a 10 year warranty and constructed by a licenced Residential Builder. The British Columbia Housing Management Commission (BC Housing) is the authority that administers the licencing for new home builders in the Province. This warranty is in place for all new construction or substantial renovations (over 75% new construction), unless the developer applies for a Rental Exemption. In British Columbia, a purpose-built rental project is not required to be constructed by a licenced builder under this exemption. A 10 year covenant is registered on title noting that the individual rental units cannot be stratified or sold for a period of 10 years from the date of occupancy. This does not necessarily mean that rentals are built by inferior builders; the same building code and municipal requirements are required to be met for both rental and for sale developments. If an owner wishes to sell the entire rental property upon completion, there will be no new home warranty, but the market and likely the purchaser's bank will dictate what level of warranty is required by a new purchaser assuming the risks. Additional awareness is required around engaging a warranty provider even in the event of a purpose-built rental to conduct site inspections during construction, as this permits the opportunity for a rental property owner to convert it back to market sale with a warranty in place, should the market and/or their needs change.

2.5. Financing Considerations

As noted in Topic 1: Item 4: Mortgage and Sharing of Debt, gentle density projects can become complex when multiple parties are pooling investment. Based on our roundtable discussion to simplify financing, it is recommended that the project be stratified, even in the case of a purpose-built rental. This simplifies the process for assigning proportionate ownership to parties who wish to live in one of the units, and rent out the remaining units. Utilizing Scenario #2 outlined previously, where three parties wish to own their own unit and share ownership of the fourth unit rental property For example, two couples wish to partner to build two duplexes (four units in total) on a single family lot, each couple will live in one of the units upon completion and would like to rent out the remaining two units. Each of the parties can hold the title of their unit, and take a proportionate share of the title of the rental unit, which simplifies and clearly defines the proportionate ownership over the entire property. This method also provides an easier exit from the co-ownership arrangement, should needs and priorities change, as they could simply sell their unit and/or their share rental unit to the other parties. With any shared ownership model, it is advised that agreements are in place for how parties can exit to clearly define expectations and obligations of the respective parties. As outlined above, stratification can be used as a tool to simplify ownership for rental properties, even if a sale to a third-party is not contemplated.

With stratification in mind, obtaining construction financing with a clear title interest will make the borrowing process less onerous. That said, lending for construction and development is much more complex than purchasing a pre-sale or already constructed home, as there are significant risks in development that can't be overlooked. The qualifications of the homeowner and proposed builder will be reviewed, in addition to significant reviews of the borrower's financial ability to weather construction delays and cost-overruns. In the research conducted to date, some financial institutions have noted that lending for gentle density projects is often considered with an elevated level of risk due to the small lending amount, and relatively small contingency and margin available. However, lenders also recognize that they are a critical component to making these projects successful. It was discussed and brought forward by several financial institutions that a government-backed guarantee would create the needed risk reduction for lending on gentle density housing projects to flourish. However, specific concerns around the potential roll-out of a guarantee program were also raised: 1) if this program was to be announced, lenders would pause until it's released, and 2) if the program isn't successful, fewer lenders would be interested in funding than originally anticipated prior to a program being announced. Further research and dialogue is needed to flesh out a successful approach to a government-backed guarantee program.

Topic 2: Purpose-Built Rental Summary		
Impact	**Actionable Recommendations**	**Governing Party**
High	Revise Residential Tenancy Act rent control provisions to ensure rental investments are viable in the long-term, with uncontrollable increases in operating costs and the cost of capital not outpacing permitted rent increases for small-scale landlords.	BC Ministry of Housing, BC Residential Tenancy Branch
High	Produce Resources/Templates for managing rental properties (operating budget, shared household tasks, etc)	Industry; Landlord BC, Small Housing BC
High	Update Fixed Term Tenancies Regulations to allow for reasonable fixed term tenancies (Ex. Students, fixed-term healthcare workers) to reduce barriers for small-scale landlord investment.	BC Ministry of Housing, BC Residential Tenancy Branch
High	Review impacts of eliminating short term rentals, which significantly limit operating budgets for homeowners looking to create flexible rental properties and tourist accommodation.	BC Ministry of Housing, BC Ministry of Tourism, Culture, Sport and Arts
Medium	Increase homeowner-developer and homebuilder awareness of completing new home warranty inspections on rental properties during construction, to assist in improving value if property is reverted to market sale or sold as one within 10 years of completion.	British Columbia Housing Management Commission (BC Housing), Industry; Canadian Home Builders Association (CHBA), Small Housing BC
Medium	Research potential framework for Gov.-backed lending on gentle density housing development to reduce risk to lenders and increase viability by eliminating risk-adjusted premiums on small loans.	Canadian Mortgage and Housing Corporation (CMHC), British Columbia Housing Management Commission (BC Housing), British Columbia Financial Services Authority (BCFSA), Industry; Banks, Credit Unions
Medium	Produce How-to Guide on Stratification for Rental Properties, outlining the benefits to ownership and management at the gentle density housing scale.	BC Ministry of Housing, Industry; Landlord BC, Small Housing BC

Legislative Changes | Capacity Building Resources | Further Research/Dialogue

Topic 3: For Market Sale

Based on the Canadian Mortgage and Housing Corporation (CMHC) report on Housing Shortages In Canada, published in September 2023, it was estimated that an additional 3.5 million housing units are needed to be constructed by 2030 to restore affordability, nationally. To address the significant need for housing across the Province, all types of housing, including market rental and market sale units play a critical role in addressing the housing needs of individuals and families in British Columbia. For gentle density housing projects led by homeowner-developers, it is anticipated that market sale will be the preferred route for the majority, given the shorter investment timeline and potential accrued equity extraction.

According to the Land Economist Guide Paper produced by Small Housing in November 2023, allowing individual ownership, or strata-titling, for each home on a lot will encourage more new units to be constructed, when compared to requiring a single owner to own the entire multi-unit development. One of the main reasons is that individual ownership creates additional opportunities for more households of varying incomes to participate in homeownership.

3.1. Legal/Stratification/Disclosure Statement Requirements

For multi-unit projects pursuing market sale, there are several key legal requirements and additional tasks beyond that of a purpose-built rental project. The notable first step is stratification to create a strata unit with its specific unit entitlement. This involves engaging the services of a BC Land Surveyor to create the legal strata plan, identifying the strata unit, common property, and limited common property that the unit is entitled to within the development. Once a strata plan is completed, a Disclosure Statement is required under the Real Estate Development Marketing Act (REDMA), which regulates how and when marketing for presales can occur. At the moment, REDMA only applies to projects of five units or more, meaning some projects now allowable under Provincial SSMUH legislation would be subject to REDMA and others not. We recommend that REDMA be adjusted to projects of seven units or more to alleviate the administrative burden of REDMA compliance on SSMUH.

Additionally, for smaller gentle density projects of five units or less, there need to be updates to the BC Strata Property Act as these projects are noted as “non-conforming” stratas, which can cause confusion in the marketplace about how these projects truly operate. For non-conforming stratas, the scale of the property is often too small for a third-party property manager, and they are often self-managed. Self-management tasks may include reporting requirements, managing a shared bank account, ensuring correct appraisals and insured values, and forecasting any preventative maintenance that could impact the shared property. It is recommended that a new section for gentle density housing projects (5 units or less) be added to clearly identify the rules and regulations of the Act and how they apply to these smaller projects.

Non-Conforming Stratas - What does it mean?

Myth	Truth	Our Recommendations
Non Conforming Stratas mean the strata corporations aren't operating within compliance and doing something bad.	Non-Conforming Stratas are typically used to define strata properties under 5 units that are not required to follow the same processes and regulations as large strata corporations, often due to the small scale and limited common property, if any.	Create a new section in the Strata Act, specifically for gentle density homes, that would replace the non-conforming label to alleviate market misunderstandings.

3.2. Strata Operating Budget & "House" Costs

For the Owner-Developer looking to market the units, regardless of REDMA regulations, an operating budget will need to be created to establish the monthly strata fees for prospective owners. As gentle density housing is anticipated to be operated similar to a cluster of single-family homes, there will be various levels of potential third-party support (such as landscaping, snow removal, garbage removal) and some multi-family aspects (communal electricity/lighting and fire alarm monitoring) that will be highly dependent on the specific project and developer. Under the Strata Property Act, the Owner-Developer will be responsible for setting the first year strata budget, managing it, and there are penalties for budget overages if inaccurately budgeted. It was recommended that an industry group, like the Condominium Home Owners Association (CHOA), could develop a course and resources for so-called "Small Strata Owners". There is potential for this course to be recommended by the Province and local industry prior to new Owner-Developers undertaking a project to ensure they are aware of the requirements and responsibilities as new small scale strata developer/operator. There was a consensus in the roundtable group that if potential owners knew of resources like this, there would be strong uptake. This course could outline the typical operating costs for small stratas, allowing Owner-Developers to accurately create and manage their own gentle density housing strata. The implementation of such a course would also help establish a common understanding in the market of what is included in the strata fees for gentle density housing, and what may end up being the future owner's individual responsibility.

3.3. Warranty / Obligations

In British Columbia, as mentioned earlier, all newly constructed homes must be insured by a 10-year warranty and built by a licensed Residential Builder, as required by the British Columbia Homeowner Protection Act. The British Columbia Housing Management Commission (BC Housing) is the governing entity responsible for issuing licenses to new homebuilders in the province. This warranty applies to all new construction as well as any significant renovations (exceeding 75% of the original structure). Although BC Housing administers the provincial Builders Licences for all new homes in BC, the ultimate responsibility falls on the New Home Warranty Provider. During project approval and licencing, BC Housing looks to the industry (in this case the warranty provider) to review and validate the builder's experience and confirm they are qualified to undertake the project they are seeking the warranty for. If the insurer does not have confidence in the builder's experience for the specific project they are applying for, regardless of them holding a licence, the new home warranty will not be able to be placed, ultimately stopping that specific builder from obtaining the building permit. To assist in growing the capacity of existing single family home builders for gentle density projects, it is recommended that additional educational courses and resources are made available to the industry. ***Gentle density projects aren't overly complex, but there are critical differences between them and single-family home construction, and providing education early and often will greatly reduce issues during permitting and construction.***

3.4. Financing Considerations

When collaborating with other parties for gentle density housing development, combining resources can introduce complexity. This scenario was discussed in Topic 1: Item 4: Mortgage and Sharing of Debt. It is typical that for-sale projects be stratified, allowing for an individual title to be assigned with a proportionate market value. This allows lenders and financial institutions to take proportionate security against the respective title in a typical financing arrangement. However, gentle density projects do have an increased level of risk to consider when financing for sale. Presales are often not required for projects of four units and under, and if the market slows beyond projections, the inability to sell one of the units upon completion can have dire consequences on the profitability of the development. Conversely, buyers of gentle density projects are typically looking to live in the space, rather than invest, so they will prefer to "touch & feel" the end product, leading to many developers wishing to hold sales until completion and capture any potential market value increase. This positioning in the market can be challenging for some lenders to consider. One of the key aspects of financing gentle density housing developments is that as required by the BC Financial Services Authority (BCFSA), developments of over four units are considered commercial, which greatly increases the amount of screening and other requirements for Owner-Developers. It is recommended that this requirement is revised to projects over six units (seven or more), allowing for Owner-Developers to work with the residential/retail level lenders and brokers for these small projects, and in alignment with the Bill 44 legislation.

Topic 3: For Market Sale Summary		
Impact	**Actionable Recommendations**	**Governing Party**
High	Update REDMA to apply to projects seven units or larger, allowing for simplified regulations for gentle density projects with six units and under, aligning with Bill 44	BC Ministry of Finance, British Columbia Financial Services Authority
High	Update Strata Property Act to allow for SSMUH (not just non-conforming) (ie. properties under 5 units to have their own section in the Act)	BC Ministry of Housing
High	Support and Develop Gentle Density Housing Strata Management Courses & Resources for self-managed projects.	BC Ministry of Housing. Industry; Condominium Home Owners Association of BC (CHOA-BC), Small Housing BC
High	Update the British Columbia Financial Services Authority (BCFSA) Policy which limits retail loans to four units. Revise to allow up to and including six units under retail lending to align with Bill 44	BCFSA, BC Ministry of Finance

Legislative Changes   Capacity Building Resources   Further Research/Dialogue

Recommended next steps

Our top five highest priority recommendations (in no particular order) are as follows:

Allow Principal Residence Exemption for Capital Gains to be applied proportionate to appraised values to overall gain, post redevelopment of the original title.

Impact: High **Area:** Legislative Changes **Governing Party:** Canada Revenue Agency (CRA)

Update the British Columbia Financial Services Authority (BCFSA) Policy which limits retail loans to 4 units. Revise to allow up to and including 6 units under retail lending to align with Bill 44.

Impact: High **Area:** Legislative Changes
Governing Party: British Columbia Financial Services Authority (BCFSA), BC Ministry of Finance

Revise Residential Tenancy Act rent control provisions to ensure rental investments are viable in the long-term, with uncontrollable increases in operating costs and the cost of capital not outpacing permitted rent increases for small-scale landlords.

Impact: High **Area:** Legislative Changes **Governing Party:** BC Ministry of Housing, BC Residential Tenancy Branch

Update Strata Property Act to allow for SSMUH (not just non-conforming) (ie. properties under 5 units to have their own section in the Act).

Impact: High **Area:** Legislative Changes **Governing Party:** BC Ministry of Housing

Update REDMA to apply to projects 7 units or larger, allowing for simplified regulations for gentle density projects with six units and under, aligning with Bill 44.

Impact: High **Area:** Legislative Changes
Governing Party: BC Ministry of Finance, British Columbia Financial Services Authority