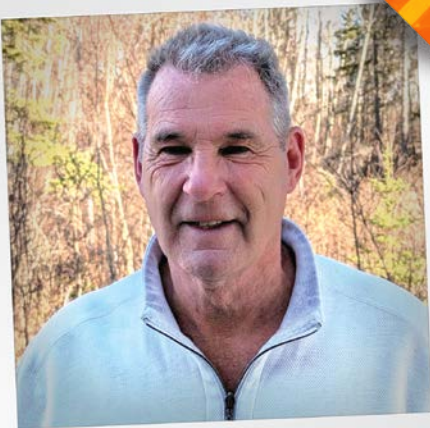




Can private investment solve the affordable housing shortage through re-invention?



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Can a private investor produce and operate affordable housing without government or not-for-profit intervention? Can old motels and boarded up warehouses find a profitable new life? Can people with social struggles find safe housing to fit their needs and lifestyles? In short: yes, with some collective will and common sense on the part of investors, government, and society in general. At the heart of this discussion lies a conflict which pits homelessness against jurisdictional regulation that serves to drive up the cost of housing.

As a perceived solution, all levels of government are happy to throw public money at the problem of housing. Wouldn't it be nice if private enterprise could find a way to participate in the solution? If only there was a way that a property developer could invest their money in a property, provide low-cost housing in an underserved sector of the market, and make a suitable return on the investment. In most free enterprise markets, if there is a profitable way to meet a need, the market will address the need. **The 'affordable housing' market needs to find a place of profitability in our free enterprise world that does not require government subsidies and programs.**

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It is little wonder that free enterprise stays away from the affordable housing sector of the market. The problem lies in the cost of acquiring the units versus the investment return earned for renting out this type of housing. Housing of almost any conventional description is simply too costly to purchase or build to be affordable for lower income housing participants. If investors could acquire investment housing at lower prices, then there would be a supply of affordable housing units. So, how do we get there from here?

To achieve the goal of lower acquisition costs for investment housing units, we need to address how and where people live. We need to re-invent housing. We need to innovate. We need to re-examine what constitutes a home. We need to empower investors with ways and means to make investment housing acquisition costs affordable so that they can pass on that affordability to the lower income occupants who cannot compete for more expensive housing stock. We need affordable housing models to provide housing that is affordable on every level; to own, operate, and live in.

Housing stock and building codes

The first place to look for more affordable entry points is in the re-application of buildings such as older motels, hotels, warehouses, and office buildings. While this has been done extensively in the past, the resulting buildings are more generally targeted at high-income users due to the high cost of renovation.

Herein lies an important yet unintended consequence of our building code system.

As it stands, the building code is partially serving to reinforce the creation and provision of unsafe homes. Because the cost of retrofitting buildings to the current code is so high, many existing marginal buildings such as old rooming houses, motels with monthly rentals, and inner-city hotels do not get fixed or renovated. Instead, these older, disused properties are left to deteriorate. In states of disrepair, these buildings only serve to meet the needs of those who cannot afford better housing. The occupants of these ‘de facto affordable housing projects’ are subjected

to increasingly dangerous and unsuitable housing conditions. In short, the building code bar is too high to reach. With these older, marginal properties, the costs of meeting building code will not provide an economic payback. So many property owners never even bother to try.

My contention is that, with enough government will, and with very little money, these barriers could be removed. We need to find a way to turn back the clock on the building re-use industry, make it affordable, and make it address the needs of affordable housing.

The bedrock that forms the foundation for this entire discussion is that **old buildings can solve affordable housing issues without the need for subsidies.** We will look at the barriers that stand in the way and why, and what we can do to reduce those barriers.

Governments and not-for-profits direct massive amounts of funding to the affordable housing sector producing new housing units at costs ranging from \$150,000 to \$300,000 per unit, depending on the area and unit types. As reported on the Canadian Mortgage and Housing Corporation’s (CMHC) website, the federal government has recently announced an initiative through the *National Housing Strategy* to build up to 60,000 new housing units and repair up to 240,000 additional units with a budget of \$13.2 billion over the next 10 years. There is nothing ‘affordable’ about this so far as it concerns taxpayers.

So why doesn’t the private sector create affordable housing? Real estate investors purchase property with the desire to produce a viable return on investment.

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The high price paid to acquire rental housing assets are the primary driver for high rental costs. As the free market plays out, there comes a point where the acquisition costs and the rental costs find equilibrium. It is this equilibrium point dictated by the bulk of the rental demand market that leaves out the lower income participants. Low-income earners cannot afford to pay enough rent to satisfy a return on the investments made by property owners.

Low-income earners represent a very large pool of potential renters, but with a lack of purchasing power, they are left without a suitable supply of housing. It would seem logical that, if investors could get a profitable return in renting to lower income markets, they would see strong demand. So let's get affordable investments into the hands of owners.

A case study in success

For background, in 2008, I acquired the Travelaire Motel in Kimberley, British Columbia. This was an older motel with 14 units that no longer addressed the needs of travellers. Everyone driving highways in North America is familiar with the old 'Mom and Pop' motels that proliferated in the mid-20th century. Small scale, wood frame buildings with few amenities. The Travelaire Motel was one of these and it was losing the battle to modern hotels.

In purchasing it, my business plan included conversion of the suites into long-term occupancy suites with the addition of kitchenettes, an exterior facelift, landscaping, new windows, flooring, and paint.

Fast forward to present day and we now have a thriving, vibrant community of low-income residents calling this place home.

At the time of conversion, the building code issues were not nearly as stringent as they are now. If attempted today, there is a vast array of building code requirements that would prevent such a conversion from taking place.

Although the Travelaire Motel project was successful, we have encountered many examples since where things were unable to progress similarly. The downfall of the projects has generally been attributed to building codes, as well as zoning by-laws and financing.

Solutions

Affordable housing needs to become an entity all to itself. Much in the same way that office buildings are different than retail buildings, and manufacturing buildings are not warehouses, we need to see affordable housing as something separate from conventional housing. By squeezing affordable housing into regulations that apply to 'conventional' housing, we create barriers to affordable housing, making its development unrealistic and implausible, and leaving those in need with very few options.

Let's take a closer look at each of these barriers and identify some possible solutions.

Building codes: The term 'building codes' encompasses a dizzying myriad of legislation and interpretations. There are far too many variations of each which fall under this umbrella than can be suitably addressed in this article. Our aim here is to emphasize that these codes present a major barrier. If I were to guess, there is likely not a single planner or building inspector in this country who has not seen a project fail at this juncture.

In most progressive jurisdictions, if a building is going to be applied to a new purpose, it must meet all the building code requirements for that building type as though it were new. This is problematic. Safe building codes and the protection they provide are important. But the costs associated with that level of protection are so high that they keep investors out of housing.

Can we find a way to bring down the costs by looking at some common-sense solutions to provide safe housing without such stringent building codes? And in doing so, encourage renovation bringing deteriorating buildings up to a more livable standard.

The unintended consequence of stringent building codes is that they create expensive retrofits and thus make the project an unlikely candidate for affordable housing. Worse still, they can discourage the upgrade of buildings, instead seeing investors leave them in states of deterioration while still in use for low-income occupancy.

My solution: **establish a new building code for retrofit 'affordable' housing projects.** I know this suggestion can sound like two tiers of safety, one for the privileged and one for the financially disadvantaged, but it is not. In fact, lower codes could make housing safer in the long run as presently unsafe buildings could be improved to meet a higher standard of safety, whereas they would be otherwise left to deteriorate. Over time, the stock of older buildings will continue to increase, as will the cost of restoring the buildings to a functional standard.

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Let me speculate now on what will happen if we do nothing to reign in building codes. To earn some income, owners of old motels and hotels will rent out suites on a long-term basis illegally and without regulation. In fact, this is already the reality for many buildings, many of which do not meet minimum safety standards and present very unsavory environments. By adopting 'middle ground' codes, investors could start to participate in re-using these old buildings, leading to the overall improvement of safety standards and forcing out 'under the radar' operators.

Zoning: Land use by-laws typically exist to control the use of a property at the time of initial development and attempt to make that use consistent throughout the life cycle of the property. In other words, land use designations dictate what type of building can go on a site and what type of occupants can inhabit and use the building. All this is done at the wishes of the municipality to organize the community.

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Problems arise with re-use or second-generation applications of a property. In most cases, buildings expire by physical means and are torn down and the property is given a fresh start. But what happens when the business occupying a building comes to the end of its economic viability while the building itself still possesses many years of functional lifespan?

To address this, I would propose a new land use designation called ‘Designated Affordable Housing Re-Use.’ Municipalities could selectively apply this new land use designation to certain sites where the buildings are no longer economically viable within the present zoning restrictions. With this new designation, municipalities could provide terms that are more suited to affordable housing such as lower parking allowances, higher densities, smaller unit sizes, and other related considerations for common areas, laundry, building access, etc. In doing so, affordable housing needs could be better addressed away from the limitations of conventional residential real estate.

Financing: If the above two issues of zoning and codes were dealt with, then this form of real estate investment would find a foothold and financing would materialize. Lenders just want to know that real estate can pay off a loan, and if anything goes wrong, they can sell the property to repay the debt. Government can do one very important thing to help; loan guarantees for purchase and renovations of private affordable housing retrofits. Rather than fund affordable housing development projects, all the government would have to do is provide a lender with the security of debt repayment and capital protection.

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The path ahead

The crux of this discussion is that affordable housing is different than conventional housing. Government money is being used excessively to plug the breach in the dam, but in the end, it is coming up short. We need free enterprise to step in and meet the need. We need to get investors involved while the government provides a smoother pathway to profitability.

We have created a society of **regulation for protection**. These protections and regulations can stand in the way of providing affordable housing, and, in many cases, entrench buildings in unsafe conditions. Let’s think of affordable housing in a new light. Let’s revisit the barriers in a sensible manner. Let’s not allow people to live on the street because we cannot find a way to make housing safe and affordable.

There are investors, properties, and endless opportunities to have the private real estate investor community put a major dent in the issue of affordable housing. As we innovate moving forward, we may find many unseen and unintended benefits. We may find that we’re able to bring some older dis-used properties back to life, preserving their character, revitalizing neighbourhoods, providing employment, and potentially driving substandard housing driven out of the market. Most importantly, the result will provide people with safe and affordable places to live and start Canada down a path towards appropriate housing for all. ■