

Home Ownership in Transition Discussion Paper

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on behalf of Tim Youmans and Richard Cook

The Single Family Home North American dream –for households

- A place to raise a family
- Security of tenure
- A good investment

BUT

- Not suitable for all households or all stages of life
- Increasingly unaffordable

The Single Family Home North American Dream – for public policy

- Harnesses private capital for public benefit
- Reduces pressure to use public funds for housing – allows focus on households in housing need
- Economic driver
- Community stability

BUT

- Promotes sprawl and conflicts with Smart Growth goals
- Unaffordable to growing segment of the population

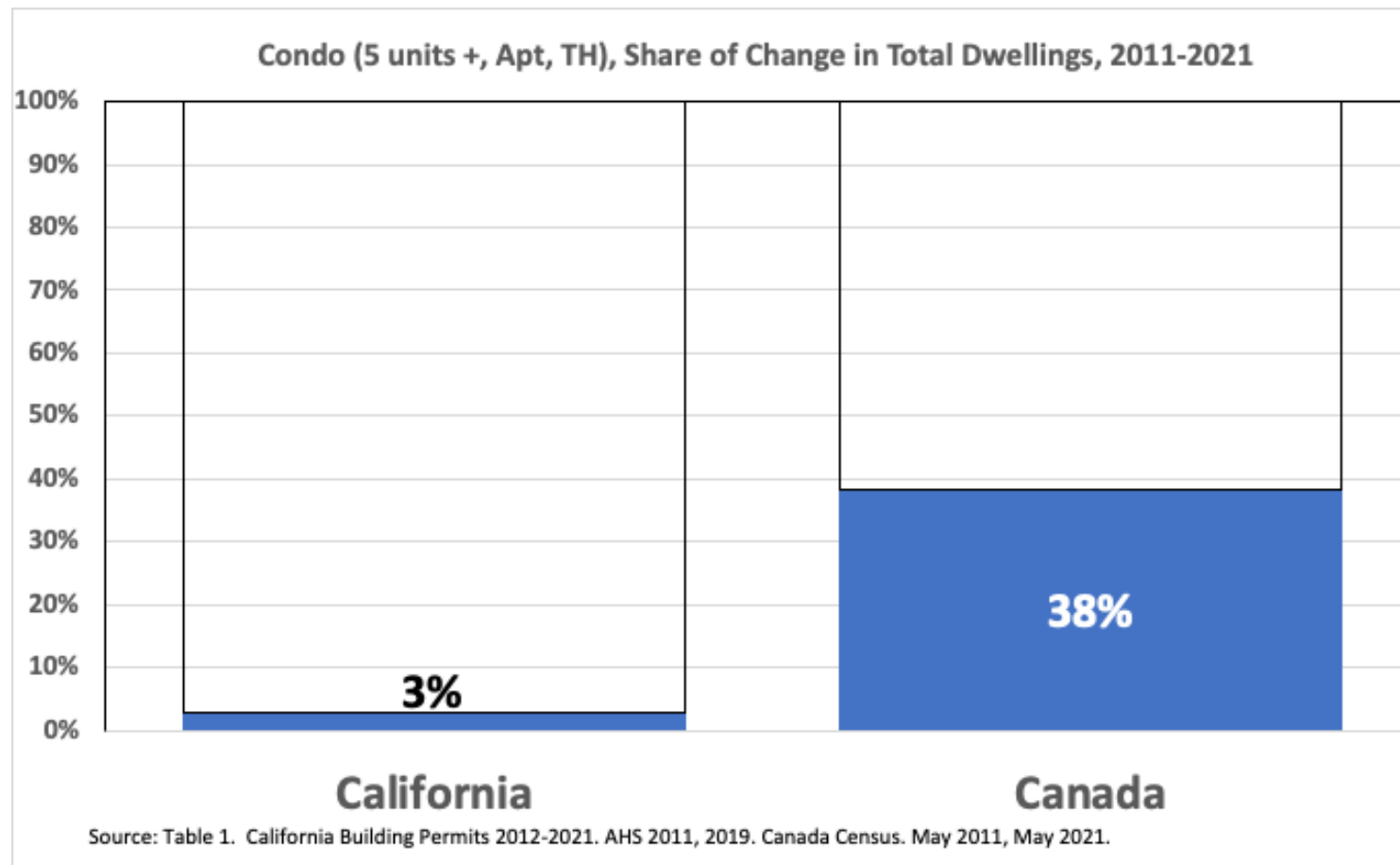
Decline in ownership share of housing market

- California: Percentage of people aged 25-75 who were homeowners declined from 50 % in 2000 to 44 % in 2021
- Canada: Percentage of households that are owner occupied declined from 69 % in 2011 to 66.5 % in 2021

Condominiums are part of the solution

- Benefits of home ownership at lower cost
- More suitable for a broader range of households and life stages
- More consistent with Smart Growth principles
- Private capital and market principles are applied to a wider range of housing needs

California/Canada comparison



Why? Different risk profiles

- Construction defect risk exposure for consumers
- Project financial risk exposure for builders, investors and insurers

Construction defect risk

- California
 - Onus for quality control lies with builders
 - Statutory warranty not backed by performance bonds or insurance
 - Builder's "right to repair" requires homeowner action and has short timelines
 - Incentive for contingency litigation by homeowner associations
- Canada
 - Builder licensing with teeth
 - Mandatory third-party home warranty for up to 10 years encourages builders and homeowners to resolve defects

Project financial risk

- California
 - Any deposit greater than 3 % of the purchase price is fully refundable to the home buyer any time before closing
 - Therefore consumers often make deposits on several properties when they only intend to close on one
 - Consumer risk is capped, while developer and lender risk grows as the project proceeds towards completion (or not)
- Canada (e.g. British Columbia)
 - Pre-sale contracts are recourse contracts – on default a lender can take pledged collateral
 - Buyer's deposit is 10 % of sale price which is non-refundable after 7 days and increases to 15 % and 20%
 - Developers can get deposit insurance to allow use of deposits to fund project costs

Why does this matter?

- Benefits of multi-family home ownership
 - For households and communities
 - For Smart Growth objectives

Multi-family home ownership benefits to households and communities

- Lower priced entry
- Ownership choice for smaller households
- Ladder to financial stability
- Equitable access to tax benefits of ownership
- Reduced material footprint and sprawl
- Community roots and safety

Smart Growth benefits of multi-family home ownership

- More compact development
- More transit-oriented development
- More mixed-use development
- More affordable housing
- More sustainable design and green building

When is there a role for government?

- When operation of the market is not producing needed goods or services
- When risk is not being appropriately distributed and managed
- Examples: automobile industry crisis of safety/quality; flood hazard insurance, bank deposit insurance

Principles of government involvement

- Ensure level playing field
- Invest in knowledge and education to improve market functions
- Backstop: lender or insurer of last resort
- User pay/user benefit financing rather than taxpayer financing

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