

A check-in on providing housing

City Council workshop with UDI – Kelowna Chapter

Introduction



- **Who we are.**
 - Urban Development Institute – Okanagan Chapter
 - Professionals, developers and builders.
- **Periodic check-in with Council**
 - Share information and discuss issues.
- **Building our communities is a collaborative process**

Today



- **A health-check on the issues impacting the provision of housing today.**

- Costs
- Prices
- Policies
- The future

Overview



- **Housing affordability**
- **Household incomes**
- **Costs of development**
- **The fragility of providing housing today**
- **The public policy conundrum.**

Key messages



- **We are facing the highest costs in a generation in building housing.**
- **Many new projects nearing construction are marginal or paused.**
 - Vs applications/approvals for financing and readiness.

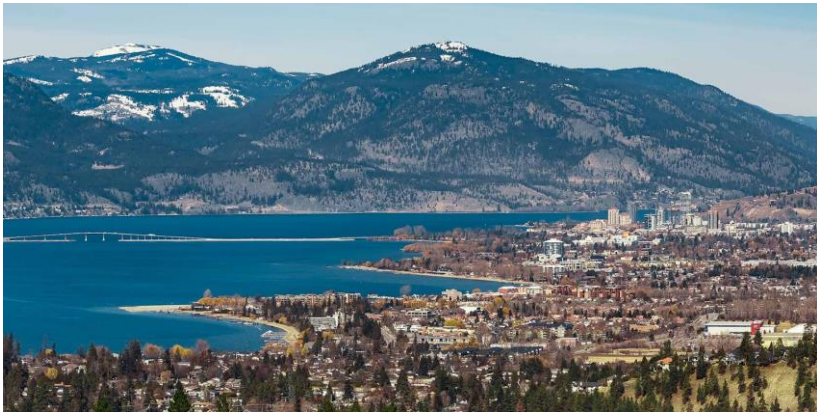
Affordability of housing



- **Factors**

- Household incomes
- % of income going to housing
- Monthly housing cost allocation
- Total housing price

Household income



- **~2,000 hrs/yr FT job**
 - = Multiply wage level x 2,000 to get pretax annual salary.
- **Avge Kelowna Household income:**
 - Single income
 - Double income
 - Professional family

Affordable / attainable housing



- **Generic “affordable housing level”**
 - 1/3 of pre-tax income (33%)
- **Reality of “attainable”**
 - 40% of income
 - 50% of 2 income household

Monthly mortgage payments



- **Monthly payments for typical mortgage rate (6-7%)**
 - (\$~700/mo per \$100,000 mtge)
- **Median condo price**
 - Monthly payment
- **Median price of house is \$1M**
 - Monthly payment is: ###

The rental trap



- **Historically, move from renting to owning in 30s.**
- **Key issue if renting**
 - How many years to save a downpayment?
 - Mortgage qualification at interest / stress test rates?
- **If cannot buy, then stay in rental stock for decades.**

The gap

- **Monthly \$ available at 40% of income**

- Single income
- Double income
- Professional family



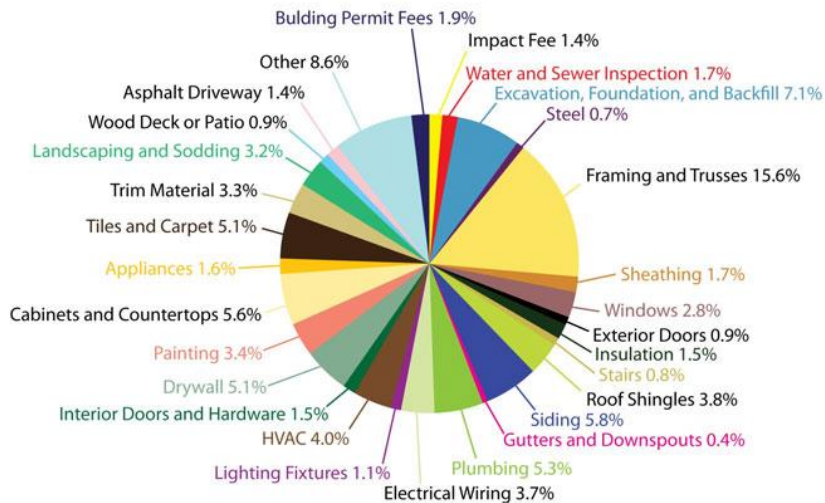
- **The cost of new housing at \$ / sqft to build (all costs) at 10% downpayment.**

- Small apartment
- 2 bed apartment
- Townhouse
- House



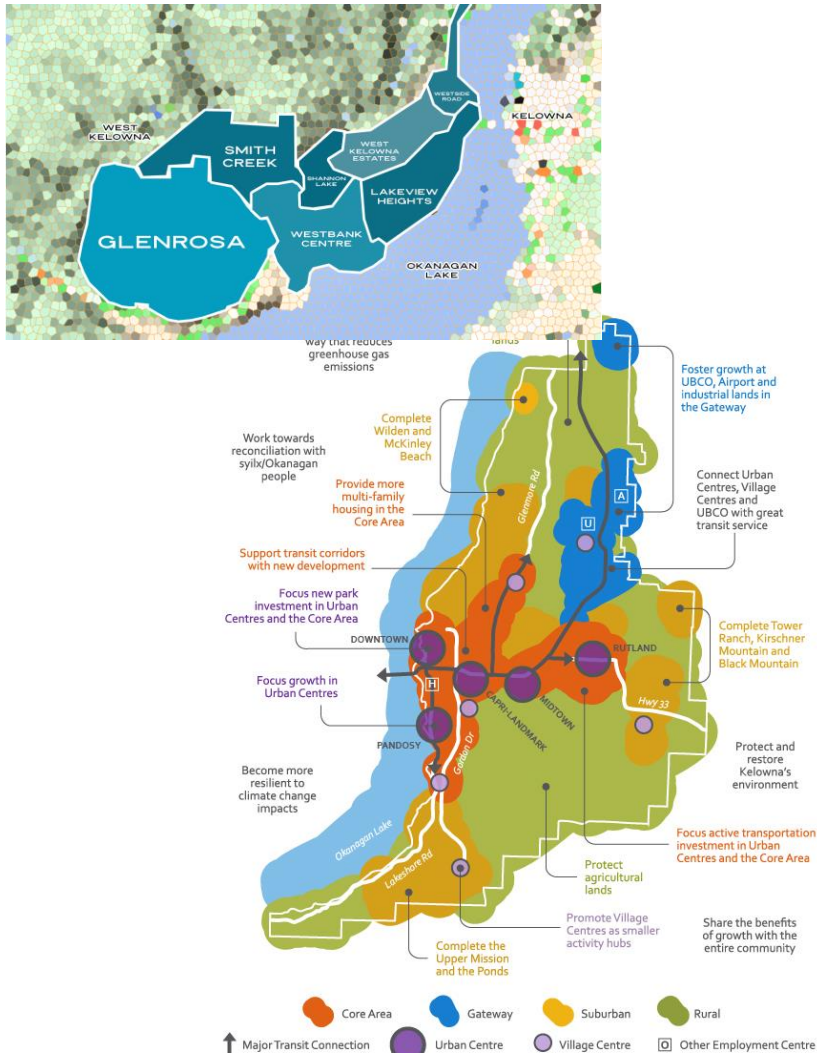
Exploring why costs are so high

Construction Cost Breakdown



- Land (and servicing) cost
- Materials (hard) costs
- Labour (soft) costs
- Interest costs
- Municipal fees and charges / asks

Land costs



- **All focused on infill**
 - Within growth boundaries
- **Includes on/offsite servicing costs**
 - Water, sanitary, storm, streets, new intersections, upgrades.
- **= Land cost / unit**
- **Land constraints have significant impact on housing costs.**
- **Land availability in OCP / zoning is key to this.**
 - Kelowna has been doing good work to address this.

Material (hard) costs



- **Some of the highest in a generation**
 - Wood / concrete / steel / glass / drywall / etc...
 - Hard costs have increased since 2019 by 65-75% (QS)
- **Code changes are increasing costs**
- **We have no control over this.**

Labour (soft) costs



- **The most expensive ever – and hard to find.**
- **Additional studies and standards adds costs.**
- **We have no control over those – we pay the market rate.**

Interest costs



- **Past 12 years = an anomaly**
 - The lowest sustained interest rates in many decades = set unrealistic expectations
 - Significant amounts of money flooded into housing projects.

- **Today:**

- Highest interest rates in a generation.
- Commercial interest rates for our projects higher than typical homebuyer mortgages.

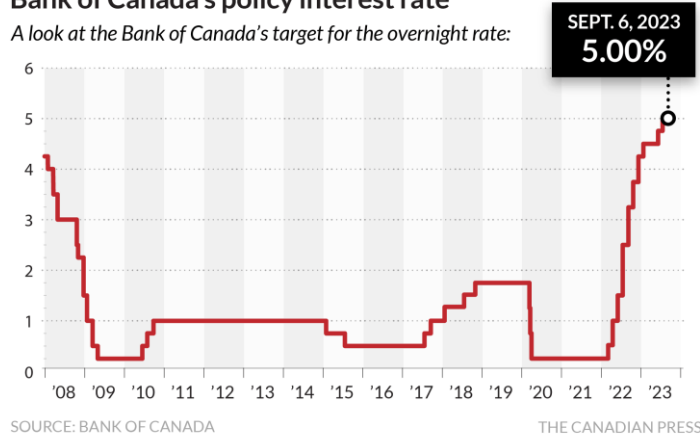
- **Future**

- Interest rates likely remain relatively high.

- **We have no control over interest costs.**

Bank of Canada's policy interest rate

A look at the Bank of Canada's target for the overnight rate:



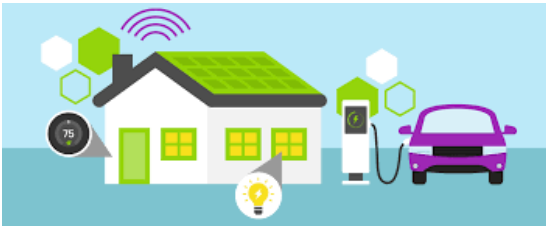
Interest costs for a project



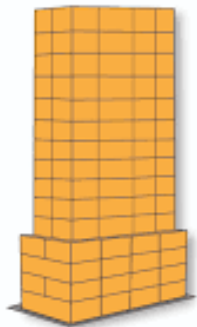
- **Construction of housing is very exposed to interest rates (double hit)**
 - Charged to builders
 - Charged to buyers
- **%s typically borrowed:**
 - Buying / holding land
 - 50% borrowed
 - Servicing
 - 75% borrowed
 - Construction
 - 85-100% borrowed

Municipal fees, demands, delays

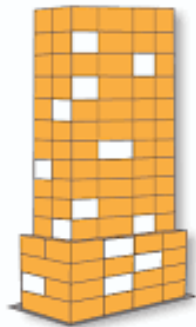
Municipal Fees



Development
without IZ



Development
with IZ



 Market unit
 Affordable unit

- Application fees
- DCCs
- Amenity Cost Charges (ACCs) ?
- All additional public policy requests
 - Energy efficiency and EVs
 - Saving trees
 - Accessibility
 - Inclusive zoning
 - Other costs
- Municipality in full control of these costs in housing.

100% of costs are passed on to buyer/renter



- **As with any other good or service in the marketplace, 100% of costs must be passed on to the purchaser / lease holder.**
- **Therefore, anything that adds cost to housing directly increases prices for home buyers / renters.**

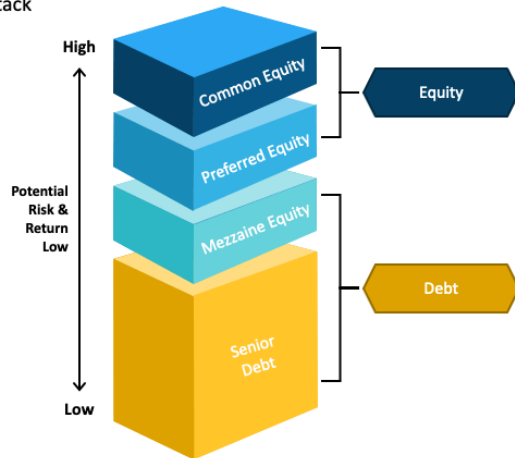
Poor \$ projects simply do not get built.



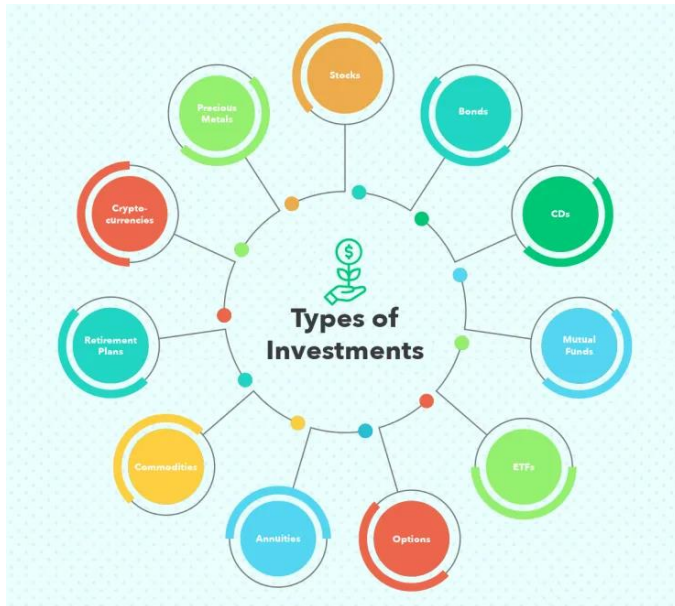
- **Most all projects involve a “capital stack” = a number of investors (equity) and lenders (debt)**
- **Our projects financed by your savings /pension**
 - Banks, pension funds, credit unions = biggest funders of housing projects.
 - Lenders want to see minimum 15% profit margin (to protect your savings).
- **The decision on whether to proceed is in the financiers’ hands.**

CAPITAL STACK

Full Capital Stack



Money is mobile



- All individuals invest money in many things / geographies – and we move our money to where the risk/reward works for us.
- Money is fluid – it goes to the optimum investment.
 - The bank / financiers will not risk your or their life savings on a risky, poor performing project.
 - They simply move on to the next project.
 - Or leave real estate.



Today: many projects slowed / paused

(Cost of building and level of demand at top prices)



- **Kerkhoff – One Varsity presales**

- Paused Casorso planning.

- **Worman - 3110 Lakeshore**

- Did not build 64,000 sqft bldg.
- Renovated existing building.



- **Stober – Pandosy Original Joes site**

- 150-175 unit residential condo project put on hold in an urban center.

- **Mission Group**

The public policy conundrum: tradeoffs.

- **We acknowledge Council is looking to achieve many public objectives.**



- **All new costs added to new housing projects:**
 - Increase prices / decreases affordability

Housing provision is fragile today

- Costs are record high
- Market is at ceiling
- Easy to push construction costs past feasibility of buyers to pay.

The political gauntlet

Existing versus future residents

- **Costs allocated to future residents (via new development)**

- Not current voters
- Not current taxpayers
- Not organized
- Represented by “the (politicized) developer”

- **Costs allocated to current residents**

- Organized and vocal voters and taxpayers



The “Paying for Growth Conundrum”

- The cost of amenities (parks, etc...) to supply current and future residents need to be carefully allocated.

Conclusion



- **Providing housing is a public/private collaboration.**
- **Clarity and mutual understanding is essential.**
- **Today: A health check on the realities of housing construction to inform Council for future decisions:**
 - Diagnosis: extremely fragile!