GENERATION URBAN: Financing family-friendly housing in Canada's urban centres

Kristin N. Agnello*,RPP, MCIP

Plassurban, Victoria, BC

ABSTRACT: As municipalities across Canada are increasingly looking to attract families to their urban cores, an understanding of the ins and outs of development proformas is helpful to support newly constructed housing units that are appropriate, suitable, and affordable for a broad range of residents, including families. Housing policies and regulations can significantly impact the design and distribution of housing in a community, therefore giving greater consideration to the spatial impacts of urban policy can enable planners to encourage the creation of attainable, family-friendly housing in every community, including within Canada's urban centres.

URBAN living is often imagined to be reserved for singles, young professionals and, in some cases, downsizing seniors. As municipalities work to attract families to their urban cores, the conversation naturally shifts toward one of space, affordability, and amenity. The majority of Canadian cities lack a history of dense, urban living for families, therefore single-detached and ground-oriented housing typologies are often the expected choice for households with children[1,2]. In recent years, however, as the social, environmental, and economic implications of urban sprawl have become clear, Canada's downtowns are increasingly being marketed as hubs of convenience, culture, and community for a new generation of urban residents.

THE COST OF CONVENIENCE

To meet the needs of an ever-expanding population, municipalities across the country are taking advantage of existing infrastructure, transportation networks, and amenities by focusing on supporting housing development in mature and urban neighbourhoods. A lack of suitable and affordable family-friendly housing in Canada's urban cores has long been a significant constraint for urban families. Faced with urban housing options that are often too small and too expensive, families are being forced to choose between enjoying the benefits of density – public transportation networks, employment opportunities, cultural experiences, and shared public amenities – and being able to afford a larger family home away from the city centre.

Where housing is being added to Canada's booming urban centres, it is mostly taking the form of small studio, one, and two-bedroom units catering to single adults or childless households. In fact, in August 2019, only 9% of available rentals across Canada had three or more bedrooms, while nearly one third of

Canadians households were comprised of three or more people[3]. Space constraints and high property values have spurred discussions about how municipalities can help incentivize the construction of family-sized units – including larger two and three bedroom units – in their city centres, while encouraging or maintaining affordability.

It is clear that it is not enough for planners to simply request that an increased number of larger units be constructed. From an economic standpoint, larger units generally sell for less per square foot than their studio and one-bedroom counterparts, making them less attractive to developers and investors for condominiums and purpose-built rentals alike[4]. Furthermore, while policy may help incentivize the construction of new, larger units, municipalities are neither able to control who will occupy those units, nor how much the units will sell for. Without additional strategies and support from other levels of government, housing providers, and community partners, childless households will have an economic advantage over families with children as they compete for space in the urban housing market. This paper will explore the potential relationships between planning policies, land economics, and housing outcomes in a community, particularly with respect to the construction of two and three-bedroom units.

FINANCING FAMILIES

Municipalities have often experienced a historically tenuous relationship with the development industry. The high cost of land across British Columbia has become a central social and political issue and is one that disproportionately impacts families[5]. Planners rely on private development to realize the objectives of municipal plans, but, without a comprehensive understanding of the financial implications of housing policy, local governments often find themselves at the mercy of market forces. A solid understanding of land economics can help planners anticipate the outcome of housing policies and support conversations around desired land uses, building forms, and public amenities. A proforma is a generalized set of calculations that allow a developer to estimate the hard and soft costs of development, anticipated sales or rental revenues, and the expected return on investment using current market rates. A proforma allows developers to understand, in quantifiable terms, the maximum value that can be paid for a parcel of land, the financial costs of planning and rezoning applications, the cash value of amenity contributions, and the optimal distribution of unit sizes and types within a proposed development [6].

For every policy, regulation, or public benefit that a municipality applies to a parcel of land, there is a corresponding cost for developers. When profit margins are too low, a developer may find it difficult to secure financing or justify the risk involved in developing a parcel of land and may choose to invest elsewhere. Delays caused by rezoning requirements, public hearings, community resistance, delayed municipal reviews, or amenity negotiations have the potential to significantly impact the financial feasibility of a project by resulting in additional fees, charges, or carrying costs. Similarly, municipal requirements for affordable or specialized housing units may result in significant financial implications for developers.

But, while targeted, family-friendly housing policies are critical to support the development of housing that is both suitable and affordable for families, it is essential that planners understand the impacts of these policies on the feasibility and unit distribution of housing developments. To illustrate the potential cost implications of a typical affordable housing policy, let's examine a proforma for a hypothetical condominium development. The proforma is based on a residential lot in Victoria that is zoned for a density of 1.50 FAR. FAR – or Floor Area Ratio – refers to the relationship between a building's gross floor area and the area of the parcel of land upon which it is constructed. Used alongside other regulatory requirements, FAR calculations allow planners to anticipate the density impacts of a development based on the massing and land use of the proposed project.

For this example, we are assuming a construction value of $250 per gross square foot and an average market sale price of $800 per square foot of net saleable residential space. Taxes, site servicing, and carrying costs are calculated as a percentage of the site area and assessed value. For the purposes of this example, a developer could construct 25 market units, consisting of six studio units, nine one-bedroom units, five two-bedroom units, and five three-bedroom units.

Anticipated Project Revenues	
Number of Units	25
Avg. selling price per Unit	$500,000
Gross Revenue	$12,500,000
Less commissions and fees	$750,000
Net Anticipated Revenues	**$11,750,000**
Project Costs	
Land Acquisition	$ 12,00,000
Transfer Tax	$20,000
Financing costs on Land Acquisition	$75,000
Subtotal-Land and Related Costs	**$1,295,000**
Hard and Soft Construction Costs	
Rezoning and On-Site Servicing	$165,000
Hard Construction Costs	$6,500,000
Landscaping	$90,000
Soft Costs	$575,000
Contingency on Hard and Soft Costs	$350,000
Financing Fees and Holding Costs	$450,000
Property Taxes	$85,000
Subtotal Hard and Soft Construction Costs	**$8,215,000**
Developer's Profit	**$2,240,000**
Profit Margin on Revenues/Value	18%
Profit Margin on Costs	22%

Table 1. Baseline Proforma

Using the above proforma as a baseline, planners can calculate the financial implications of various policy and regulatory options. For example, a policy requiring that 25% of units by area in a new development must be affordable, then the same twenty-five unit condominium building would result in nineteen market units and six affordable units. This example assumes that the affordable units would be sold at 30% below market value at an average sales cost of $560 per square foot of net saleable residential space. In this example, the cost per square foot of the market units would remain unchanged. In the absence of additional financial incentives or density bonuses, the development proforma would be impacted as follows:

Anticipated Project Revenues	
Number of Units	25
Avg. selling price per Market unit	$500,000
Avg. selling price per affordable unit	$350,000
Gross Revenue	$11,600,000
Less commissions and fees	$700,000
Net Anticipated Revenues	**$10,900,000**
Project Costs	
Land Acquisition	$1,200,000
Transfer Tax	$20,000
Financing Costs on Land Acquisition	$75,000
Subtotal-Land and Related Costs	**$1,295,000**
Hard and Soft Construction costs	
Rezoning and on-site servicing	$165,000
Hard construction costs	$6,500,000
Landscaping	$90,000
Soft costs	$575,000
Contingency on Hard and soft costs	$350,000
Financing fees and holding costs	$525,000
Property taxes	$80,000
Subtotal Hard and soft construction costs	**$8,285,000**
Developer's profit	**$1,320,000**
Profit margin on revenues/value	11%
Profit margin on costs	13%

Table 2. Affordable Housing Requirements

While the developer would earn a nominal profit in this example, it would likely be insufficient to secure financing for the project or otherwise cover the risks associated with developing the site. If additional incentives were unavailable, the developer would need to increase the average price of each market unit by approximately $49,000 in order to offset the loss in revenue from the affordable units. If the developer felt that they could reasonably increase the cost of the market units by this amount, then the project may still be considered viable, particularly on a strategically-located or highly-desirable site. However, this increase in cost has the added impact of making the market units less affordable to the public.

Alternately, the municipality could consider a moderate increase in the density of the site in exchange for the desired affordable housing units. This increase would enable the developer to recover some of their loss in profit without a significant impact on the cost of the market units. For example, increasing the allowable density of the site from an FAR of 1.50 to an FAR of 1.80 would allow the developer to meet their financial objectives while also satisfying the municipality's affordability requirements. In the following example, the developer could potentially construct three studio units, seven one-bedroom units, eight two-bedroom units, and eight three-bedroom units, for a total of 26 units.

Anticipated Project Revenues	
Number of Units	26
Avg. selling price per market unit	$580,000
Avg. selling price per affordable unit	$405,000
Gross revenue	$14,000,000
Less commissions and fees	$825,000
Net Anticipated Revenues	**$13,175,000**
Project Costs	
Land Acquisition	$1,200,000
Transfer tax	$20,000
Financing costs and land acquisition	$75,000

Subtotal-Land and Related Costs	**$1,295,000**
Hard and Soft Construction Costs	
Rezoning and On-Site Servicing	$165,000
Hard Construction Costs	$7,500,000
Landscaping	$90,000
Soft Costs	$700,000
Contingency on Hard and Soft Costs	$400,000
Financing Fees and Holding Costs	$580,000
Property Taxes	$95,000
Subtotal Hard and Soft Construction Costs	**$9,530,000**
	$2,350,000
Developer's Profit	17%
Profit Margin on Revenues/Value	20%
Profit Margin on Costs	

Table 3. Impact of a Moderate Increase in Density

This increase in density would allow the developer to recover the cost of the affordable housing units, while also supporting the development of larger, family-friendly units. Compared to the original baseline scenario, the developer would be able to provide eight two-bedroom and eight three bedroom units - for an overall increase of six larger units - while achieving the municipality's target of 25% affordable units. In this situation, the municipality could support the developer in meeting both their affordability targets and family-friendly housing objectives through a moderate increase in density. It should be noted that, while the average unit cost in this example appears to be higher, this is due to the increased number of larger units; the cost per square foot remains unchanged.

As the above examples illustrate, it is critical that planners develop and maintain an awareness of local construction costs, land values, rent levels, and vacancy rates in order to understand – and negotiate – how changes to policy can impact a development's overall feasibility. By understanding and leveraging the financial implications of policy changes, municipalities can begin to align local housing requirements with private development objectives, thereby supporting mutually beneficial development outcomes.

URBAN AMENTIES

Urban living provides a myriad of benefits, from cost-sharing and social networking to combating the environmental impacts of sprawl. But, is housing policy enough to entice families to leave their larger, suburban homes for urban living? A city is more than a dormitory, therefore housing policy must consider not only type and cost of housing available, but also the social, economic, and cultural opportunities that a place provides. According to the 2011 census, two thirds of Toronto's urban families were living in buildings with five or more storeys, however, over half of these families were planning to relocate within five years because their communities lacked family-friendly amenities[7]. A family-friendly community is one where residents have the ability to meet the daily needs of children and their caregivers without the excessive need for travel, segregated spaces, or special provisions. If the child-friendliness of the built environment is measured, in part, by how livable and inclusive it is, then municipalities must carefully consider how enabling regulations can be leveraged as an effective means of influencing

the character, composition, and configuration of a community.

Generally speaking, the closer housing is to schools, early childcare and education facilities, community services, and transit, the more likely it is that families will be able to access and benefit from the amenities offered by their community. Unfortunately, many of the amenities necessary to make urban living a viable option for families – childcare, schools, recreation opportunities, and public transportation networks – fall under the jurisdiction of multiple municipal departments or other levels of government[8]. Any meaningful attempt by municipalities to diversify the urban housing stock in order to attract and retain families must simultaneously address the necessary partnerships, facilities, and programs required to meet the needs of these families *before* they relocate to the area.

The most promising policy and regulatory approaches for attainable urban family housing are those interventions that cross disciplinary boundaries and provide opportunities for multiple generations, family-types, and household compositions, including:

1. Collaborating with other levels of government, social agencies, and private developers to support and sustain the affordability of urban housing over time;
2. Ensuring that schools and childcare facilities are early and integral parts of housing plans and policies before housing density is increased;
3. Redefining affordability targets to reflect affordability factors such as transportation, childcare, and food security[9];
4. Focusing on incremental, moderate-density development that supports the creation and maintenance of intergenerational social networks, rather than housing density alone; and
5. Developing frameworks for ongoing plan monitoring and evaluation that supports a municipality's ability to respond to the changing context and challenges of a community over time.

CONCLUSION

Cities are dynamic and diverse places that provide residents with a myriad of opportunities for personal and social growth. To build and maintain an inclusive and sustainable community, planners must address the needs of families as an important source of daytime activity, revenue, vibrancy, and participation. Infill development in Canada's urban centres has the potential to provide housing for people, support well-being, stimulate the economy, enhance social cohesion, and protect the environment. But, for cities to remain hubs of social opportunity, municipalities must scrutinize their policies and regulations for features that discourage family-friendly housing types and perpetuate the notion of urban centres as ideal housing only for the childless and wealthy. To encourage the development of communities that are sustainable, inclusive, and complete – for a broad spectrum of residents, life stages, and family structures – planners must understand the physical and economic implications of municipal policies, regulations, and processes. The relationship between a city's economy, its policies, and its structures has the power to welcome – or exclude – certain populations and demographics, now and in the future. Only through understanding can we foster collaboration and inclusion.

ASSOCIATED CONTENT

The estimated values used in the proforma have been grouped and rounded for clarity. For a full breakdown of estimated costs and formulae, please refer to Appendix C in:
Agnello, Kristin. *Child in the City: Planning Communities for Children and their Families.* Victoria: Plassurban, 2020.

AUTHOR INFORMATION

Corresponding Author

Kristin Agnello, RPP, MCIP
kagnello@plassurban.com

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