

# Market Rental Revitalization Study

## Landlord/Developer Focus Group Session

January 24, 2018, 12:00-3:00pm

Victoria City Hall, Songhees Nation Meeting Room

**14 participants attended the session**

### **Agenda overview:**

- Introduction to the project, including context and related studies, provided by City of Victoria Community Energy Planner, Devon Miller
  - Including project scope, goals, deliverables, and timeline
- Project example: Lord Harley Apartments
  - Overview of this residential rental building retrofit provided by RDH Building Science Associate and Senior Project Engineer, Christy Love
- Group discussion on the following topics, facilitated by City of Victoria Director of Sustainable Planning and Community Development, Jonathan Tinney:
  - Current barriers to reinvestment
  - Motivations for reinvestment
  - Tenant stability considerations
  - Potential incentives to encourage reinvestment while retaining tenant stability

### **General project comments:**

- There are differences in perspectives and approaches depending on landlord situation, such as:
  - Whether landlord is also a developer
  - How many buildings are owned by the same landlord
- Discussion from participants regarding the role of landlords in providing “affordable housing” in the context of City goals/mandates – it was noted by participants that landlords are operating a business and have a variety of considerations that motivate their actions
- Discussion from participants with regard to context of the buildings this study is concerned with: many were not built with the intention of providing “affordable” housing, but were rather built as market-rate housing that has now aged and sits at the lower end of the market

### **Current barriers to reinvestment:**

- Seismic upgrades are particularly difficult to consider
  - Need to know what is involved and seismic upgrading may require more disruption than other types of upgrading
  - Uncertainty risk identified when doing seismic upgrades (in particular) include discovering asbestos primarily, although sometimes structural deficiencies can be discovered as well (either poor construction, or damage due to deterioration that hasn’t been “discovered” until the upgrade work begins).

- Return on investment (ROI) is a major consideration – and when/how it happens
  - ROI depends on the building, type of work, and who pays utility costs (landlords or tenants)
  - More immediate, rather than long-term, ROI is preferred in many cases
- “If it ain’t broke, don’t fix it”
  - Minimal desire or motivation to do work before it is required
- Uncertainty and risk when it comes to upgrades
  - Some upgrade work can lead to discoveries of more work needed, e.g. hazmat (see comment above re: seismic)
- Scale and complexity of upgrades
  - Some upgrades are easier to undertake, where others are more intensive in terms of both cost and planning
- Permitting process as a barrier
  - Both time and cost of permitting
- Investments in energy efficiency or other upgrades not recognized by CMHC when refinancing
  - And they use market averaging, so don’t recognize the value in their underwriting

**Motivations for reinvestment:**

- Motivations for investment can vary based on ownership model/situation (for example: older rental buildings that are family-owned, landlord-developers with a portfolio of buildings, etc)
- For most, there has to be a business case and economic return
- Return on investment considerations:
  - Landlords need to find ways to recoup other costs that are increasing (for example, property taxes, utility costs) to maintain the viability of the investment
  - Major projects wouldn’t be financed through cash flow of the building, likely only when there is a refinancing opportunity
  - If the costs get too high/returns get too low, there are other opportunities for investment with a better ROI
  - Upgrades can maintain/extend the life of the asset (or some of the assets) but still mostly motivated to invest when there is a strong need
  - Increasing curb appeal of the building can attract higher quality tenants and rents
- Long-term capital plans can be valuable to some
- Life safety issues are typically taken care of first (fire safety, roofs, etc)

**Tenant stability considerations:**

- Discussion involved consideration of proposed Tenant Protection Policy (with aspects including notice, compensation, communications, moving assistance, and right of first refusal), with examples from other jurisdictions
- General agreement that there is a desire to treat tenants well and mitigate/minimize impact, but there are additional considerations and a balance to be found
- Displacing tenants is not necessary in most cases of renovation

- Can do interior renovation incrementally, as natural tenant turnover occurs
- There may be some amount of tenant displacement in cases of substantial renovation
  - Challenging figuring out how to maintain tenant in situ while doing more intensive upgrades to reset the age of the building (like plumbing)
  - Tenants may not wish to stay in building
- If tenant turnover occurs following renovation/upgrade work, it is likely to be followed by increase in rental rates
- Redevelopment of 4-storey buildings not likely because the economics don't make it viable
  - But certain things may happen to force your hand – for example, if elevator goes out and other work required, might be more cost effective to redevelop than repair
- Fixed-term lease amendments to the RTA are helpful for overall affordability and tenant protection – but also provides challenges to landlords when building is known to be undergoing significant renovation or redevelopment and need to set fixed-term leases
- Giving advanced notice (more than 2 months) of redevelopment is possible in most cases
  - But need to strike balance, because with increased notice comes likelihood of losing rents (as tenants will leave and be difficult to replace with redevelopment pending)
- CALUC process may trigger earlier tenant notice, and there are pros and cons to this. Needs balance.
- Relocation – as uncertainty and fear of finding comparable new housing may be major tenant concerns, extended notification (more time to find alternative accommodations) and assisting with finding accommodations may help mitigate, but there is challenge of finding comparable units within existing neighbourhoods
- Guidelines for best practice are welcomed, but requirements may be challenging as each situation is different
  - For example, there may be many reasons why a landlord is redeveloping /demolishing, and increased compensation may not always be possible
- Examples of current practices for tenant stability during redevelopment:
  - Some landlord/developers have policies around tenant notice and compensation (above the RTA), looking to Vancouver as example of best practices, and factor the costs into the proforma.
  - Example of landlord who started consultation process with tenants early, but many left and were difficult to replace, amounting to a considerable amount of lost rent revenue.
  - When helping relocate tenants, landlord found that many tenants were okay with paying rent a little bit higher than their current rates to live in a comparable place in the same area – however, landlord found there were some for whom that was not an option, so working more closely with those individuals to come up with specific measures to ensure they are able to be rehoused.

#### **Potential incentives to encourage reinvestment while retaining tenant stability**

- Different incentives may be attractive depending on if landlord or landlord-developer
- Financing incentives: would help if CMHC could increase their underwriting and amortization rates
- Tax measures incentives:
  - Capital gains tax

- Property tax holiday
- Incentives with regard to new building (re)development / developing on lots with existing buildings in order to encourage the creation of new rental stock to meet needs:
  - Density increases and density bonusing (but this was noted to not be relevant to non-developer landlords)
  - Time and certainty with development process in order to encourage building of rental rather than condo
    - Prezoning rather than rezoning: set out clear guidelines (FSR, design guidelines, etc) and don't go through public hearing process
      - Public hearings can be fraught with costs, risks, and consequences
  - Counteract the NIMBYism that fights against more density
  - Parking reductions for existing buildings
  - Inclusionary Zoning is viewed by some participants as a disincentive – doesn't make sense for rental because the financing is different

### **Standards of Maintenance**

- Jurisdictional questions were noted by participants around provincial Residential Tenancy Act and the municipal role of Standards of Maintenance
- The market alone does not necessitate all landlords to keep buildings in a good state of repair
  - Extremely low vacancy rate in the City of Victoria means that tenants may be stuck in buildings they are not happy with because there is little else available, whereas in other markets it may be more difficult to find tenants for a building in a poor state of repair
- Participants noted that tenants may also contribute to the degradation of building in some cases
- Recognition from participants that there are a handful of “bad actor” landlords who allow their buildings to operate in a poor state of repair; most take care of their buildings
- SOM should focus primarily on life-safety aspects
- Important for regulations to be clear and simple for compliance and enforcement

### **Action items for MaRRS Project Team**

- Conduct follow-up meetings with landlords and property owners to test out potential policy and incentive programs for feasibility and to ensure they meet the three goals of tenant stability, improved performance, and seismic resiliency
- Provide participants with emerging directions report for comment, feedback, and consideration