

Learning from Vancouver: Housing Affordability & the Myth of Supply-Side Densification

Aug. 14, 2017

Vancouver has experienced significant escalation in the cost of housing over the last decade. Continuing our investigation of the housing affordability crisis, The Planning Report reached out to Patrick Condon, Chair of the Urban Design program at the University of British Columbia and a thought leader on sustainable urban design and livable cities. Offering a different perspective from housing advocates who simply promote greater housing supply as an affordability solution, Condon advocates instead a targeted increase of middle-market housing supply and strong value-capture practices

Professor, Vancouver's housing challenges were the focus of your remarks at the Asia Society's recent Pacific Cities Sustainability Initiative summit. Please share your analysis with *The Planning Report's* readers.

Patrick Condon: Our experience in Vancouver is that additional supply of housing does not necessarily lead to improved access to housing for people in the city. In Vancouver — as well as San Francisco, London, New York, and probably Los Angeles, in the not-so-distant future — housing has become a commodity rather than a home. And as a commodity, it gets bid up by global pressures. Global capital flows are stimulating an inordinate rise in the price of all real estate.

Until recently, in functioning real-estate markets, the average family wage in a region was closely aligned with the average cost of housing — whether that housing was high- or low-density. That was more or less the case in Vancouver until the mid-1990s.

Now, the price of housing is four to six times more expensive than it should be. The price per square foot of a residence, compared to the purchasing capabilities of people living in the area, is completely out of whack.

In the 1980s and '90s, Vancouver became famous for adding density in our Downtown, which was unusual for North American cities. At first, these new high-density projects were available to people with middle-class incomes. Families moved back downtown; adequate open spaces, daycare facilities, and schools were provided, as was some supported housing. This was rightly celebrated.

But that was then, and this is now. Now, the only buildings that get built are high-rises aimed only at the very highest ends of the market. (They're all of a type; even their finish characteristics are similar.) This is also the case in New York and London, where nothing is getting built except apartments that are selling for \$2,000-\$4,000 per square foot.

Q: The conversation in California often revolves around the narrative that building more housing will solve the state's affordability crisis, and that the main obstacle to this solution is NIMBYism. How do you frame the urban housing affordability issue?

Patrick Condon: I look at it very differently. I can tell you where the cities at the beginning of this process are going to end up, because we had the same arguments in Vancouver as prices began to rise.

Faith in “supply and demand” was very strong, and the argument was made by almost everyone that the answer to the problem of affordable housing was more supply. The city administration oversaw many approvals for new housing units based on the assumption that any supply is good supply. Their presumption was that there would be some kind of trickle-down—that, even if the new supply was aimed at the high end of the market, benefits would accrue to the lower end of the market by freeing up housing units. After many years of pursuing this strategy, it turned out that this was not the case.

It became increasingly obvious that adding supply in this way was not reducing, but actually increasing, the cost of housing. Adding supply at the high end had the nefarious consequence of increasing the apparent investment value of real estate throughout the entire city. It not only created supply that was unaffordable to the people who live here, but also had the perverse effect of raising the cost of all housing throughout the city.

Today, the city administration has made a 180-degree reversal – at least in their rhetoric. The mayor has said that it is no longer adequate to assume that adding supply is going to solve the housing affordability crisis; instead, the administration is trying to find ways to manage the market in order to supply housing for the middle of the market.

Going forward, our mayor says the approach will be to enthusiastically support only supply that is aimed at the people who live in Vancouver and make average incomes—specifically, housing that can be afforded with 30-35 percent of the average income of workers in the city.

Q: What form of dense residential development do you suggest is more compatible with neighborhoods in Vancouver, and arguably Los Angeles?

Patrick Condon: I very much support the city's new strategy of refurbishing neighborhoods' existing housing stock to support more dwelling units—as long as that does not reduce the number of rental units there in the process. Rather than building one luxury high-rise downtown, change design ordinances such that single-family lots can be reconditioned to fit three or four individually purchasable strata units and/or rental units, by putting in another structure on a part of the lot presently occupied by backyard.

That is an intelligent strategy because it recognizes that the thing of value is not so much the building as it is the land. Under present circumstances, Vancouver residents can't compete for a

parcel that's valued at \$1.5-\$2.5 million. That only attracts people at the very high end of the market, and often, after purchase, the original structure is torn down for a much more luxurious structure. But if that \$2 million parcel is turned into four dwelling units, then the land requirement of each of those units is only half a million. And after rehabilitating and adding onto the structure, the individual units can be purchased for \$400,000-\$800,000—which is much more in line with what people can afford to pay.

In my opinion, the city is still not going far enough because it allows only three units per lot. That still won't put those units within reach of those with average city incomes. But it's a step in the right direction.

Q: The notion of vibrant, mid-density housing development is sometimes termed “the missing middle.” What does that term suggest?

Patrick Condon: I think the concept of “the missing middle” has led people here to think that they have to do land assembly, which is politically difficult and comes with the consequence of distorting the fabric of the neighborhood. The strategy I advance is better termed “hiving”. It takes advantage of existing parcelization and structures to achieve “missing middle” or townhouse-level densities without reconfiguring entire neighborhoods.

Q: How has taxation in metropolitan Vancouver worked to reinforce or undermine your efforts?

Patrick Condon: Pretty much everything that's built up here is done by zoning variance rather than by right, and we have mandatory fees called Community Amenity Contributions that are negotiated in the context of variances. What the city gets as a consequence of variances is a number of millions of dollars to use for amenity packages: parks, recreation centers, libraries, and other things that give residents some of the benefits that accrue from a development.

These packages can be quite substantial; in Vancouver, they're supposed to capture 80 percent of the value of the land lift subsequent to a zoning change. To take an extreme example, say there's a parcel or set of parcels that was zoned for single-family, and then a variance is approved to allow a 20-story tower on it. Naturally, the value of that land has enormously increased as a consequence of that zoning change, and the city has will try to recapture 80 percent of the value of that land lift to use for amenities. That has been the major form of development taxation here for decades.

When people visit Vancouver, they are surprised by the number of parks we have and by the lavish expenditures on public amenities that are very visible in our Downtown. They were all paid for by these fees, not by ordinary tax levies. So this system worked out quite well in the past—until we got to the point where the only thing we were building was luxury housing.

A more recent strategy is to put a 15 percent tax on all foreign purchases, whether new or old structures, in all parts of the city. That has taken some of the sting out of the dramatic increase

in the value of single-family homes, which is the kind of housing that has been most attractive to international investors. It has also mitigated the “penthouse market,” a piece of the high-rise market—the most expensive luxury apartments—that was also very attractive to the investment class.

One thing the city has not yet done, which I have advocated, is to increase and rationalize taxes (i.e., make transparent rather than negotiated) on all development. We have the ability to do that through the Development Cost Levy (DCL), which the city can set at any price, and which can be used to support affordable housing. We could use the DCL as a means of gaining enough funds to build, on the back of market-rate projects, public housing that the city would own and run. A transparent DCL at a higher level would get us out of this game of one-off negotiations for goodies that we experience using the CAC tax.

This strategy is a variation of the “Vienna Model”, so called because this is what Vienna has done for decades. The trick is that they tend to tax market development at such a high level—at least high in North American terms—that two things happen: 1) They get an enormous amount of money for public housing, and 2) it decreases the value of the land under the project.

A strategy of taxation that reduces the cost of land does not necessarily increase the cost of housing at the point of purchase. The Vienna model shows that if the city levies a tax of, say, \$100 per buildable square foot against a parcel where you could sell a unit for \$1,000 per square foot, that will not make the housing more expensive, for the most part. Rather, it will deflate the value of the land under the project.

It has political consequences, of course, but the goal of this model is to devalue land throughout the city—because in reality, we don’t have a high-cost housing problem. We have a high-cost buildable land problem. It’s not housing that costs all this money; it’s land.

Q; Over the last five years, you’ve worked on a number of long-range plans for cities in the Vancouver region. Share the importance of such city visions for addressing the challenges that cities like Vancouver, San Francisco, London, New York, and even Los Angeles face.

Patrick Condon: In the hopes of inspiring the city of Vancouver to do something forward-looking, beyond the usual five- or 10-year horizons, my colleagues and I at the University of British Columbia took it upon ourselves to do a 2050 vision for the city. But I must say that the city has not enthusiastically embraced what we’ve done.

In the city of North Vancouver, I worked on a 100-year plan that has successfully informed the official community plan. It takes as its objective ensuring affordable housing for the expected tripling of the population in the city over the next 50 and 100 years. Additionally, by the time that planning period is over, the city should be operating with essentially zero greenhouse-gas emissions.

I've also had a relationship with the city of Surrey for about 25 years, beginning with a project called the East Clayton Sustainable Neighborhood that was started in the 1990s and is now completed. Recently, I've worked with them in the context of their community plan to make the city more sustainable between now and 2060. These projects tend to involve gentle infill densities and adapting existing neighborhoods to new types of communities, particularly immigrant communities.

For example: One piece of the puzzle in Surrey was that the immigrant families repopulating these 1950s single-family neighborhoods were often extended families where cousins, uncles, grandmothers, and grandchildren lived in the same building. The strategy we came up with was to reimagine existing structures on cul-de-sac lots for three to five families, and to allow quasi-industrial uses, such as small welding shops, to occur on the site as well.

Surrey is a very interesting community to work with. It was built in the 1950s to '70s — a period when everything was auto-oriented—and is successfully adapting its community structure to be more compatible with walking, biking, and transit, as well as a whole different set of family types than it was originally built for.

Q: Where does “sustainability” fit—if at all—into these planning, land use, and housing concepts for Vancouver and adjoining cities?

Patrick Condon: The city of Vancouver has an ambition to be the greenest city in the world by 2020, and they have a series of benchmarks to assess whether they are successful. They have ambitious benchmarks on urban forestry, recycling, reusing construction materials, and most importantly, getting people out of their cars to walk or bike or use transit. The most notable and controversial strategy is, of course, the addition of bike lanes throughout the city.

This ambition of Vancouver's is not uncommon throughout our region. Surrey has a sustainability plan called the Sustainability Charter that has equally ambitious benchmarks, especially around reducing the use of resources and decreasing individuals' production of greenhouse gases. The cities of North Vancouver and Richmond have something similar. In comparison to other places in North America, the Vancouver region has high degree of success in meeting these green goals.

But Vancouver has also had a very dramatic wake-up call, which is this: It does us no good to be the greenest city on the planet if no one can afford to live here. There has to be coordination between strategies to provide affordable housing and strategies to create a sustainable city.

This coordination brings the citizen—the person—back to the forefront of policy. People need homes, and, secondarily, those homes need to be efficient. People need to get around, and we want them to do so in an efficient and zero-emission way. But the most crucial thing is that people have to actually be able to afford to live in our city.

Q: Are you bullish about the ability of our urban metropolises to address the housing crunch that cities like Vancouver, San Francisco, London, and Los Angeles now face?

Patrick Condon: No, I'm not bullish. I think it's a very difficult problem, because underlying it is a structural change in the way global capitalism is working.

What we have now is not just a problem of affordable housing. It's the fact that the middle class no longer has enough money to buy a house. Co-incidental with the unreasonable increase in the cost of housing is the reduced capacity of the middle class to earn a substantial living.

A living that, in the past, was not such a challenge, is now quite a challenge. For example, in 1992, a baggage handler at Seattle-Tacoma Airport was paid \$22 an hour. In 2017, the rate for that same work is \$18. This trend is happening in many industries. An often unremarked aspect of the unaffordable housing problem is the fact that people are getting paid much less compared to what they were paid decades ago for similar work.

I feel that we can mitigate the stress created by these structural changes in the global economy by taking a more aggressive posture toward providing housing for people who experience housing stress. The Vienna Model is a good example of that. But the fundamental problem is that there is a flow of money away from the middle class toward the investor class, and that is not a problem that purely housing-oriented strategies are going to solve.

Q; Let's close with an off-topic question: This issue of *The Planning Report* covers the news that Los Angeles will host the 2024 or 2028 Summer Olympic Games. As a learning exercise for LA, share your perspective on how Vancouver successfully managed growth and public investment for the 2010 Winter Olympics.

Patrick Condon: I was quite skeptical about Vancouver hosting Olympics. I was suspicious of the premise that it would be good for the city, because we hear stories worldwide of capital investment in the Games that yields insubstantial returns, and legacy structures that end up derelict. But in the end, it was really good for us.

What made it good was that Vancouver, unlike many other places, was careful to calibrate its investment to things that would be useful after the Games and to take advantage of facilities that were already there. Existing stadiums and local universities, including UBC, were used as venues for activities. The city didn't add all that much, and what was left behind was useful.

The planners on the Olympics committee collaborated with the planners and operators at our regional transportation agencies. They changed the configurations of some streets, created temporary bus-only lanes, added buses, and so forth—so that, for that four-week period, getting around wasn't all that difficult.

The Winter Olympics became an occasion for people all over the world to see our city, and boy, was the atmosphere great. We're a relatively small city, so the arrival of half a million people makes a huge difference. It was a party.

Los Angeles is also planning on using existing facilities, and it will have a very robust infrastructure, so I'm sure you can manage it.