



Solutions to unlock the full potential of Small-Scale, Multi-Unit Homes

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Executive Summary

Since the fall of 2023, the Government of British Columbia has introduced several landmark legislative measures to tackle the urgent need for more attainable housing. These initiatives represent a significant, once-in-a-generation opportunity to deliver the types of more affordable homes that people want, need, and deserve.

Small Housing is eager to see the potential of Bill 44, designed to deliver attainable housing through Small-Scale, Multi-Unit Homes (SSMUH), fully realized.

While BC's ambitious legislative efforts to permit SSMUH are commendable, it's essential to recognize that legalizing these housing options alone does not guarantee their construction. Bill 44 is set to lay a strong foundation for new housing types, but now is the time to address the significant barriers that still exist. This includes the prominent financial barriers that, if left unaddressed, will ultimately prevent SSMUH from getting built.

To unleash the potential of small-scale, multi-unit homes, we must empower and incentivize homeowner-developer-led projects. Small Housing firmly holds that this offers the most promising pathway for achieving scalable implementation of SSMUH while still prioritizing community and affordability.

Small Housing's recommendations emphasize harnessing the potential of SSMUH by eliminating the remaining barriers that impede the feasibility of gentle density projects for homeowner-developers. These recommendations include:

- Modernizing financial mechanisms and lending products to better support SSMUH
- Allow strata-titling of SSMUH, including ADUs, through provincial legislation.

Small Housing's recommendations align with the goals of the Government of British Columbia to unlock more homes faster, deliver better, more affordable housing, support those with the greatest housing need, and foster a housing market that benefits citizens, not speculators.

If implemented, these measures can ensure that the Province's housing policies fulfill their potential, and deliver more attainable housing solutions that meet the diverse needs of communities across British Columbia.



Summary of Recommendations

Modernize financial mechanisms and lending products to better support SSMUH.

This can be achieved through:

- » Revise the British Columbia Financial Services Authority (BCFSA) Policy so that retail loans can be granted for up to, and including, six units.
- » Developing a mainstream construction financing products that apply to multiplexes, and are accessible to homeowner developers.
- » Developing a construction loan product that recognizes offsite construction progress in the factory and provides construction draws accordingly.

Allow strata-titling of SSMUH, including ADUs, through provincial legislation.

This can be achieved through:

- » Updating Real Estate Development Marketing Act (REDMA) to apply to projects seven units or larger, allowing for simplified regulations for gentle density projects with six units and under, aligning with Bill 44.
- » Update Strata Property Act to include a section specifically addressing properties under seven units.
- » Supporting and Developing Gentle Density Housing Strata Management Courses & Resources for self-managed projects.



Introduction

Canada is enduring a generational housing crisis that has shown little signs of abating. Based on the [Canadian Mortgage and Housing Corporation \(CMHC\) report on Housing Shortages in Canada](#), published in September 2023, it is estimated that an additional 3.5 million housing units need to be constructed by 2030 to restore affordability nationally. BC's share of that shortfall is an estimated 610,000 units. This comes despite [BC building more units of housing per resident than any other province in Canada, as of March 2024](#).

Furthermore, as Graph A outlines, ownership costs as a percentage of median household incomes are at their highest since the 1980s. A recent [Royal Bank of Canada study](#) estimated that over half of the 1.9 million new households projected to form by 2030 will be unable to afford a home.

In an effort to address this chronic housing emergency, the Government of British Columbia introduced a suite of legislative measures in the Fall of 2023 aimed at catalyzing the delivery of more affordable homes. Amongst these is Bill 44, designed to deliver new attainable housing through Small-Scale, Multi-Unit Homes (SSMUH).

While BC's decision to legalize SSMUH is commendable, it's essential to recognize that this move alone does not guarantee their construction. The current legislative measures have successfully addressed initial hurdles, but environmental and legislative challenges remain, including the prominent financial barriers that will ultimately prevent these homes from getting built if not addressed.

By removing these barriers, British Columbia can fully unleash the potential of SSMUH, ensuring the timely delivery of much-needed homes.

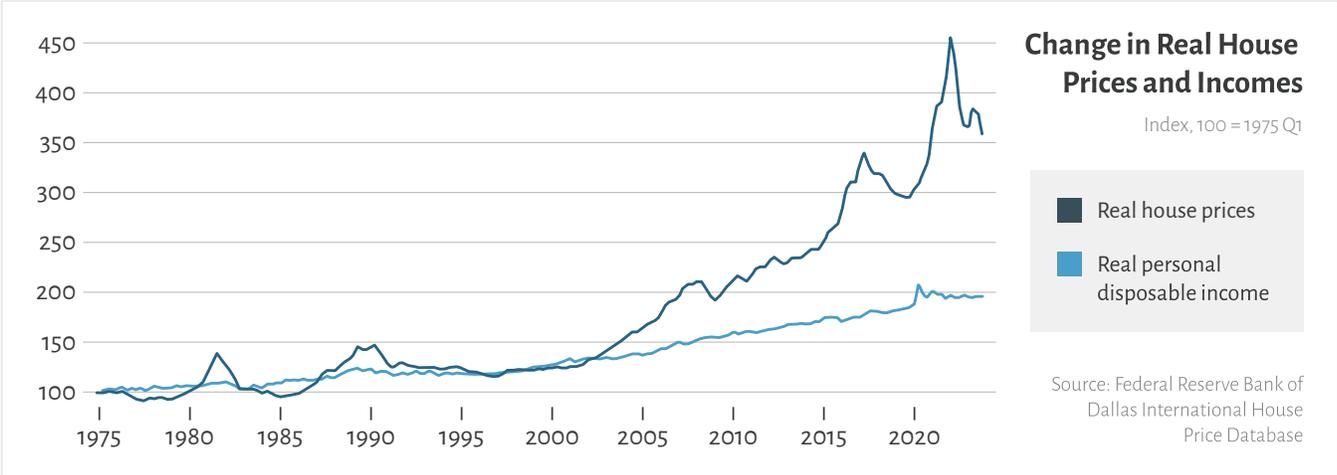
Small-Scale Multi-Unit Housing (SSMUH)

The Province of BC's chosen term referring to a range of buildings and housing units that can provide attainable housing for middle-income families. Examples of small-scale, multi-unit housing include:

- Secondary suites in single-family dwellings
- Detached accessory dwelling units (ADUs), like garden suites or laneway homes
- Triplexes
- Townhomes
- House-plexes

SSMUH will be the term used when referring to any BC Legislation and compliance in this position paper.

Graph A: Federal Reserve Bank of Dallas International House Price Database



The Limitations of Private Developers in Addressing SSMUH Needs

Historically, the Province has heavily relied on private developers to deliver housing. However, this model is not often viable for SSMUH due to the financial misalignment with the economics of gentle density housing and the interests of for-profit developers.

When developing housing projects, financial institutions typically require a projected profit margin of 16-20% to approve lending, while private capital often demands a minimum return of 20%.

20% profit margin would add an additional 100K to a mortgage on a 500K build.

For-profit developers must adhere to these industry standards to secure financing. Without obtaining necessary funding from banks or private equity investors, the project cannot proceed.

Private, for-profit developers typically seek higher profit margins and quicker returns on investment compared to homeowner-led developments. By contrast, homeowner-led developments are typically less focused on profit and more on community benefit. They are also more likely to consider impact to their community in terms of density as well as form and character.

Furthermore, the regulatory and construction costs associated with redeveloping land for SSMUH further diminish potential profits, thereby deterring for-profit developers from pursuing such ventures. Simply put, homeowner developers are likely the key to unlocking the housing communities throughout BC desperately need.



Homeowner Developers: The Key to Realizing SSMUH Ambitions

Without for-profit developers in the equation, Small Housing research suggests that supporting and incentivizing homeowner-developers represents the most promising model

for scaling Small Scale Multi-Unit Housing, while emphasizing community and affordability.

"Why Homeowner-Developers?"

<i>Personal Investment and Motivation</i>	<i>Cost Efficiency</i>	<i>Local Knowledge and Context</i>
<p>Homeowner-developers typically have a personal stake in the project, often intending to occupy one of the units themselves or with close connections like family or friends. This personal investment drives their commitment to ensuring high-quality, suitable developments that directly impact and improve the lives of the homeowner developer and the residents of the new homes alike.</p>	<p>Unlike for-profit developers, homeowner-developers are driven less by profit margins and more by sustainable, affordable housing solutions. Leveraging accrued property value and avoiding hefty land acquisition costs allows them to balance quality and cost-effectiveness without the pressure of maximizing profits. This financial advantage enables a focus on community needs over commercial gains.</p>	<p>Homeowner-developers possess deep insights into neighborhood dynamics and community needs. Their familiarity with local conditions enables them to tailor projects to integrate seamlessly into existing neighborhoods, ensuring that developments meet local demand while enhancing community cohesion and supporting incremental growth of the housing stock.</p>

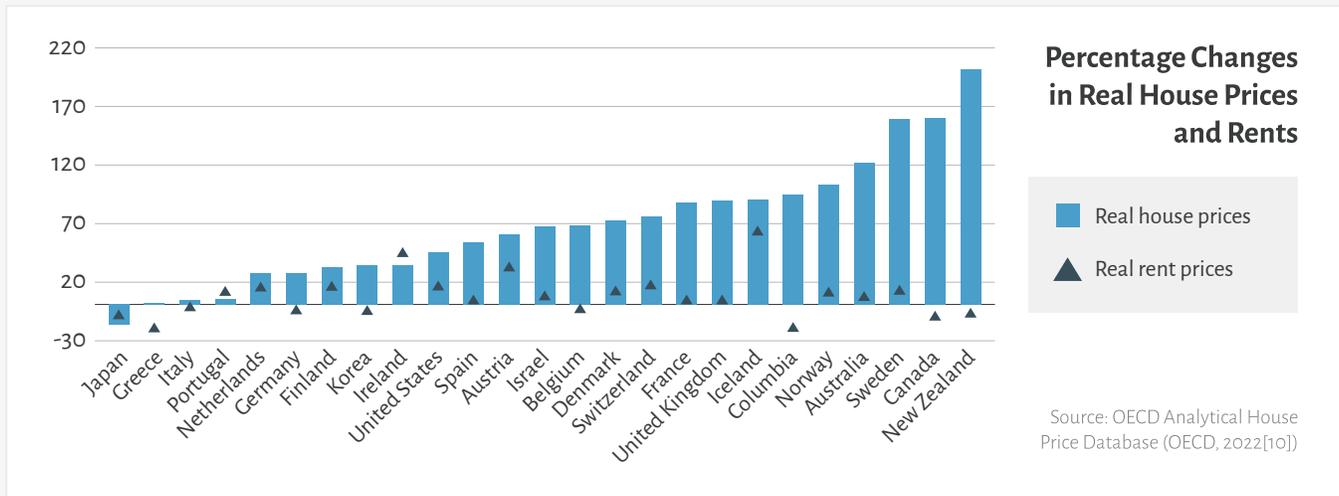


Unique opportunities for British Columbia

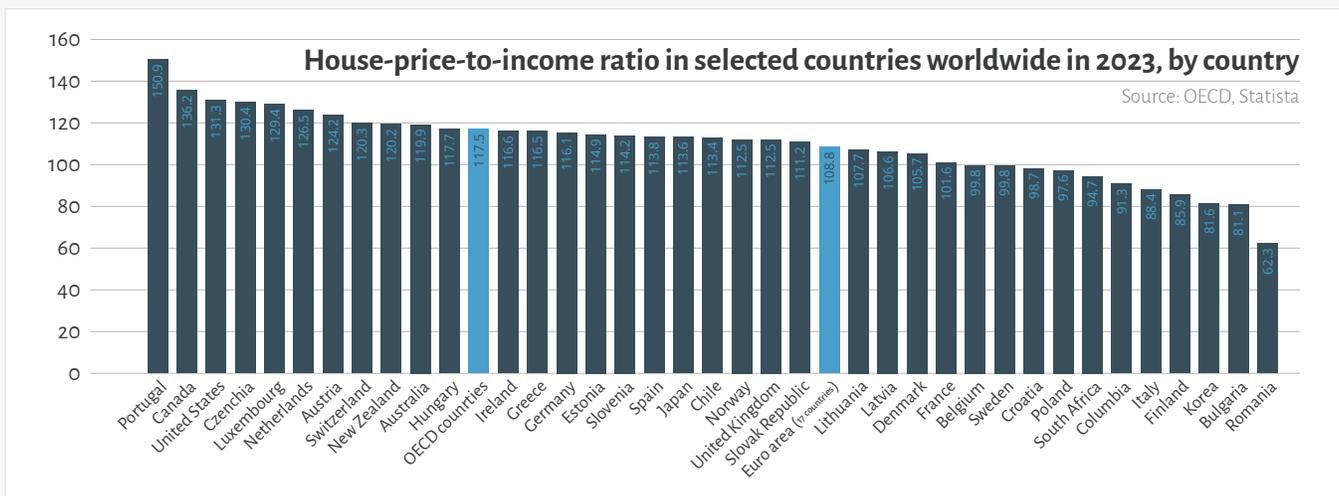
As documented in the previous section, BC's chronic housing challenges are severe. We can see this further in Graph B; New Zealand is the only OECD country that has experienced a greater increase in real house prices than Canada over the past two decades. Furthermore, a 2023 OECD report indicates that Canada ranks second only to Portugal in terms of home price unaffordability relative to income levels.

While these trends underscore a worsening housing crisis, they also offer a unique opportunity for homeowner-developers in British Columbia. By capitalizing on their existing assets and accrued land equity, these individuals and households are in a prime position to undertake small-scale, multi-unit housing projects, contributing to more affordable housing options.

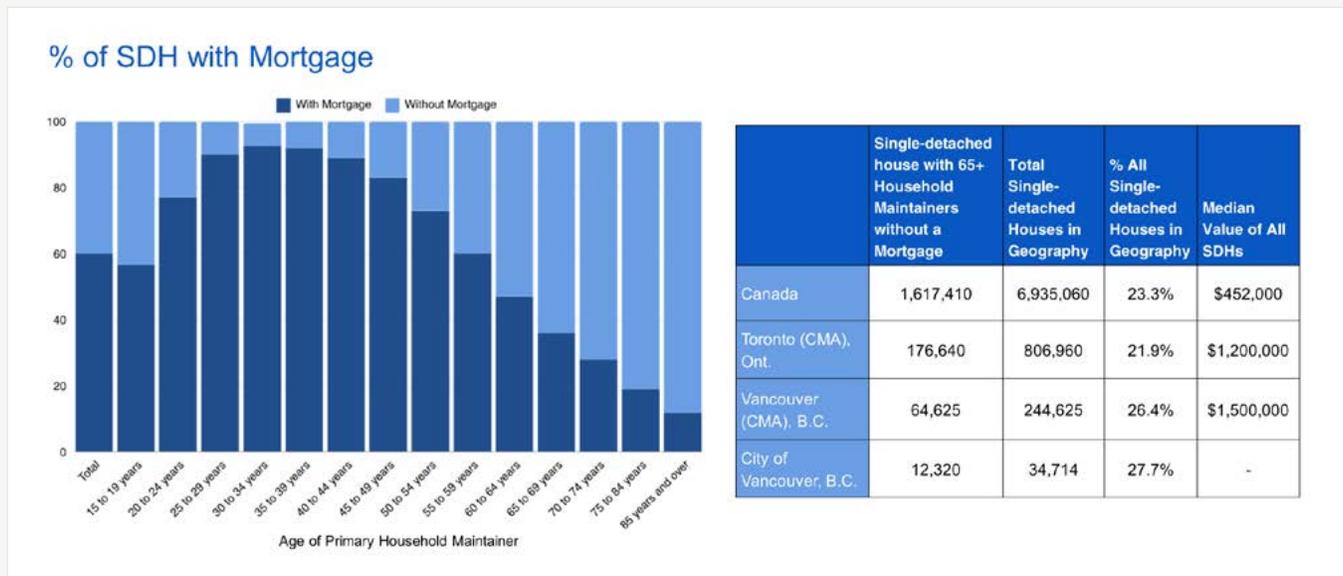
Graph B: Percentage changes in real house prices and rents, 2000 - 2020 [OECD Analytical House Price database]



Graph C: OECD's 2023 Economic Surveys



Graph D: Percentage of Single Family Homes with Mortgage (BC); Source, Smallworks (2023)



For most homeowners, the opportunity to convert equity in their property to cash, while retaining ownership of their residence, is extremely attractive. For many homeowners who have benefited from the extraordinary rise in property values in the last decade, this opportunity is lucrative but also helps future generations attain housing in existing single-family neighbourhoods. Homeowners are often in a position to leverage accrued land equity thereby reducing overall, and especially front end, financing required to initiate construction. Coupled with this, preferences for aging-in-place and multigenerational living highlight the potential of gentle density housing to cater effectively to these needs.

In the 2023 National Institute on Ageing (NIA) in Canada Survey, 88% of Canadians aged 50 and older wish to age in place as long as possible, and the rate of preference increases to 96% for those aged 80 and older.

Graph D illustrates that approximately 65,000 fully paid-off single detached lots in Vancouver alone represent 26.4% of the region's housing stock, offering substantial potential for SSMUH projects.

Despite this significant potential, the barriers that exist mean that most these properties will not be able to reach their potential of creating more livable communities, and the goals of the provincial government to restore housing affordability.



Multigenerational living

In a study completed by National Van Lines, the percentage of people moving to live closer to family in the United States from 2019 to 2021 rose by 72.9%.

Based on socio-economic and cultural similarities, it can be approximated that a similar trend exists within Canada and British Columbia.

The Barriers to Building SSMUH

Due to both profitability and feasibility, homeowner developers hold the key to unlocking SSMUH on scale. However, numerous barriers currently impede potential homeowner-developers, creating a landscape fraught with financial and logistical obstacles. Overcoming these challenges is crucial to unlocking the full potential of Small Scale Multi-Unit Housing projects and

addressing the urgent demand for more attainable housing in British Columbia. While the road ahead may be complex, with the right support and innovative approaches, these barriers can be surmounted, paving the way for a brighter future in housing development that benefits all.



Financing SSMUH: Lack of Suitable Lending Programs

Research, such as that conducted by [Sightline](#), shows that by lowering the cost of homebuilding, we can increase the number of projects that pencil out - in other words, lower costs means increased viability of projects and more homes for all.

However, there is a lack of specific programs to support construction financing for SSMUH projects, despite their potential to significantly increase middle housing stock.

Homeowners may have substantial assets in the form of their homes and land, but lack the knowledge and tools to secure funding or navigate redevelopment. Larger financial institutions such as banks, have traditionally been unreceptive to financing gentle density housing projects, deeming such projects too small to justify the transaction or too risky due to the lack of scale in most areas.

As such, lenders are crucial for the development of housing as they provide the necessary funding for smaller-scale projects that larger financial institutions might overlook. However, the British Columbia Financial Services Authority (BCFSA), the regulatory body overseeing financial institutions in BC, currently limits retail loans to four units. This restriction hinders the potential

growth of gentle density housing options such as multiplexes. To drive meaningful progress in the delivery of these homes, BCFSA policies must be updated to reflect new market realities. This adjustment will better align financial support with the evolving needs of the housing market and facilitate the development of more inclusive and sustainable communities.

We have seen some gradual movement in lenders working towards developing financing solutions. Vancity's Affordable Housing Program is committed to support the increase in supply of affordable rental and owned housing, while summer 2024 saw the Royal Bank of Canada (RBC) introduce a [new lending product](#) to finance the addition of laneway homes, garden suites, modular units, or to redevelop their single-family home into duplexes, triplexes, or multiplexes (subject to municipal zoning).

While these are steps in the right direction, it is clear that an injection of lending products specifically targeted at gentle density housing projects to the market would ensure competitiveness of pricing and choice for consumers.

The absence of suitable financing mechanisms represents a significant policy gap that must be addressed by policymakers to effectively support SSMUH initiatives.

Financing SSMUH: Failure to support Offsite Construction

Traditional residential construction, often referred to as "stick build" or "onsite" construction, has been increasingly challenged by [rising costs](#), [capacity constraints](#), [escalating materials prices](#), and difficulties in attracting and retaining skilled tradespeople. These challenges are particularly pronounced in many regions of British Columbia, including the North.

Offsite construction presents a viable and efficient alternative to stick building new stock. Offsite construction involves the prefabrication of building parts, assemblies, or components in dedicated facilities away from the construction site.

However, homeowners encounter significant hurdles in achieving cost efficiencies through modular or prefabricated development. Offsite projects are often considered unsecured or "chattel" projects, resulting in banks providing funding for only 50% of the project's value. Financial institutions generally hesitate to fund the construction phase until the building is delivered to the site. In contrast, offsite manufacturers typically require up to 90% of the building cost to be paid before transportation from the factory. This means that as much as 40% of an offsite new home build is left to be funded by the home owner.

This financial misalignment creates a substantial burden for homeowners and highlights a significant policy gap that must be addressed. To facilitate the sustainable development of SSMUH, it is crucial that government and financial institutions explore solutions that bridge this funding discrepancy and support broader adoption of offsite construction methods.



Limited use of strata-titling

Strata-titling has the potential to double the supply of available housing via accessory dwelling units (ADUs) - let alone the potential when adding duplexes or multiplexes. This expansion comes with minimal municipal costs, as it leverages existing infrastructure, and offers greater financial independence for tenants.

Strata titling is a crucial tool for boosting the attainable housing stock in British Columbia. Under the Strata Property Act, local governments in BC have a high degree of freedom to permit strata titling of residential dwellings; yet many are not adopting it despite its inherent benefits. This highlights a notable policy gap that needs to be addressed if we are to realize the full potential of SSMUH. Through Bill 44, we're afforded a greater choice in the types of homes that can be built - let's encourage the natural next step and deliver greater choice in how these homes can be owned.



Knowledge Gaps: Restricted Understanding of SSMUH

The Province's SSMUH legislation has attracted a fair share of attention as housing affordability and ownership are top priorities for many British Columbians. The extensive coverage has brought awareness of gentle density housing to people's minds when they imagine the future of their neighbourhoods. However, a significant knowledge gap exists among homeowner-developers and supporting industries, which will hinder the delivery of these much-needed homes.

Many potential homeowner developers and industry actors lack a clear understanding of what gentle density entails and how to effectively implement it. This includes knowledge of design principles, construction techniques, and the regulatory processes required to build Small-Scale, Multi-Unit Housing.

Small Housing research, undertaken in 2023, showed that [half of respondents said that they don't know anything about gentle density, small homes or "missing middle housing"](#).

Missing Middle Housing



Key Recommendations

For various logistical and financial reasons, for-profit developers are often unable to make gentle density initiatives ‘pencil out’, and thus may focus on other development projects. To make gentle density housing economically feasible. To make this type of housing economically feasible and beneficial for existing homeowners, it is essential to establish better pathways and incentives for homeowners to undertake development themselves. The following key recommendations will address these needs and help unlock the full potential of SSMUH projects.

Our recommendations focus on removing barriers that hinder the viability of gentle density projects, including:

- Modernize financial mechanisms and lending products to better support SSMUH
- Allow strata-titling of SSMUH, including ADUs, through provincial legislation.



Summary of recommendations

Modernize financial mechanisms and lending products to better support SSMUH. This can be achieved through:

- » Revise the British Columbia Financial Services Authority (BCFSA) Policy so that retail loans can be granted for up to and including six units.
- » Financial institutions developing mainstream construction financing products that apply to multiplexes, and are accessible to homeowner developers.
- » Developing a construction loan product that recognizes offsite construction progress in the factory and provides construction draws accordingly.

Allow strata-titling of SSMUH, including ADUs, through provincial legislation. This can be achieved through:

- » Update Real Estate Development Marketing Act (REDMA) to apply to projects seven units or larger, allowing for simplified regulations for gentle density projects with six units and under, aligning with Bill 44.
- » Update Strata Property Act to include a section specifically addressing properties under seven units.
- » Support and Develop Gentle Density Housing Strata Management Courses & Resources for self-managed projects.

Modernize financial mechanisms and lending products to better support SSMUH

If we are to support homeowner developers progress their SSMUH projects from conception to completion, we need to modernize policies and construction loans to align with Bill 44, and recognize the importance and necessity of present-day building practices, such as offsite construction.

Small Housing recommends:

Revise the British Columbia Financial Services Authority (BCFSA) Policy so that retail loans can be granted for up to and including six units.

To support the development of small-scale, multi-unit housing, the British Columbia Financial Services Authority (BCFSA) policy should be revised to allow retail loans for projects with up to six units. This change would make financing more accessible to homeowner-developers and small-scale builders, who often face challenges securing loans under the current policy framework.

By expanding loan eligibility, a revised policy would be aligned with Bill 44, and encourage the creation of gentle density housing, helping to address the housing supply gap while promoting more diverse and affordable communities.

Developing a mainstream construction financing products that apply to multiplexes, and are accessible to homeowner developers.

To effectively support SSMUH initiatives, it is essential to encourage financial institutions to develop mainstream construction financing products tailored to multiplexes and accessible to homeowner developers. The introduction of RBC's lending product in Summer 2024, marks a promising step in the right direction; However, expanding the availability of similar products across the market is crucial for ensuring competitive pricing and greater consumer choice. Addressing this financing gap will be pivotal in enabling more homeowners to participate in small-scale development, fostering diverse and affordable housing options.

Developing a construction loan product that recognizes offsite construction progress in the factory and provides construction draws accordingly.

To facilitate the broader adoption of modular and prefabricated construction methods in small-scale, multi-unit housing (SSMUH), it is essential to create tailored loan products.

Small Housing recommends the creation of a construction loan product that recognizes offsite construction progress in the factory and provides construction draws accordingly. By incorporating mechanisms like bar-code tracking and detailed documentation of in-factory progress, lenders would gain the assurance needed to fund these projects. Additionally, involving guarantors, such as government entities, could further enhance lender confidence, making it easier to support and finance offsite construction methods.

Allow strata-titling of SSMUH, including ADUs, through provincial legislation

By expanding the tenure choices available to homeowners in managing property ownership, we can provide greater incentives for building new units. Exploring options to develop and rent out new units, or stratify and sell them, allows homeowners to tailor their development decisions to their specific situations.

Small Housing recommends:

Update REDMA to Apply to Projects Seven Units or Larger

The Real Estate Development Marketing Act (REDMA) regulates the marketing and sale of development properties in British Columbia. Currently, REDMA applies to all development projects, regardless of size, imposing strict regulations that can be especially challenging for homeowner developers. These include the requirement for extensive disclosure statements, which are expensive and time-consuming to prepare and update throughout the project, as well as stringent rules on how and when a project can be marketed for sale.

Updating REDMA to apply only to projects with seven units or greater would exempt smaller gentle density projects (six units and under) from these stringent regulations. Aligning with Bill 44 would reduce administrative burdens borne by homeowner developers, accelerating the development and approvals process so more SSMUH can be built sooner.

Update Strata Property Act to include a section specifically addressing properties under seven units

The Strata Property Act (SBC 1998) regulates the creation and management of strata properties in British Columbia. Currently, the Act does not specifically address Small Scale Multi-Unit Housing (SSMUH) developments.

Updating the Strata Property Act to explicitly include provisions for SSMUH, and creating a dedicated section for properties under seven units, would provide clearer guidelines and support for these developments. This change would remove legal ambiguities and streamline the stratification process, encouraging more homeowners to consider SSMUH projects.

Support and Develop Gentle Density Housing Strata Management Courses & Resources for Self-Managed Projects

Developing and supporting strata management courses and resources specifically tailored for gentle density housing would empower homeowners to self-manage their SSMUH projects successfully. These educational tools would provide the knowledge and skills necessary to navigate the complexities of strata management, ensuring long-term sustainability and community cohesion. By making these resources accessible, we can reduce reliance on professional strata managers, lower operating costs, and make SSMUH projects more attractive and feasible for homeowners.

Concluding Remarks

Since Fall 2023, the BC government has introduced several legislative measures to mandate and incentivize more attainable housing. These landmark initiatives represent a once-in-a-generation opportunity to deliver affordable homes that British Columbians want, need, and deserve.

Small Housing is enthusiastic about the potential of Bill 44 to facilitate the development of attainable Small-scale Multi-Unit Housing. However, the government cannot rely on for-profit developers to undertake SSMUH projects; the high costs of capital and modest returns make them financially infeasible.

Instead, it is essential to empower and incentivize projects led by homeowner-developers who can unlock and leverage their land values to generate affordable, community-oriented housing.

Small Housing's recommendations emphasize harnessing the potential of SSMUH by removing the remaining barriers that impede the feasibility of gentle density projects for homeowner-developers. By doing so, we can achieve a more sustainable and inclusive housing landscape in British Columbia.

