

Gentle Density and Land Economics

Guidance Paper for
Local and Provincial Government

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The recommendations presented in this guide paper do not necessarily reflect the views of the individual Roundtable participants or the organizations they represent.

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Executive Summary

Communities across the province are struggling to meet the housing needs of their residents, who can no longer afford the cost of a single family property in the neighbourhoods where they want to live, nor the transportation and lifestyle costs of extending their commute to find a place they can afford. Gentle density housing types, ranging from secondary suites and backyard infill to houseplexes and small townhouses, present an attractive solution to growing our housing supply within our existing residential neighbourhoods. Provincial policy is set to increase development potential as-of-right in many residential areas, but simply allowing gentle density housing types does not mean that it will be built unless the financial conditions are right for property owners to take on the cost and risk of construction.

Small Housing convened a roundtable discussion of 10 of the leading land economists in British Columbia, who are often called upon to advise municipalities on the impact of development policies, to examine the dollars and sense (the viability) of redeveloping houses in single family neighbourhoods with more homes on the same property. With this context in mind, the discussion ranged from making financing simpler for independent small scale (“mom and pop”) developers to lowering the uncertainty, time and cost involved in getting the permits needed before construction even starts.

This Guidance Paper presents recommendations that will assist various actors involved in setting financial and cost recovery policies as it relates to new gentle density development. It provides background information and identifies challenges and recommendations in three key areas:



ENABLING TENURE OPTIONS (OWNERSHIP AND RENTAL)

Letting builders choose whether to stratify or rent out new homes will encourage more new units to be constructed.



LEVELING THE COST PLAYING FIELD AND REDUCING RISK

Constructing multi-unit buildings is more complex and costly than single family homes; by offering standardized designs and simplifying approval processes it is possible to reduce the uncertainty and costs involved.



BUILDING IN AFFORDABILITY

Given the small number of units involved in these projects, it is administratively simpler and more financially viable to take any affordability requirements or financial contribution (if required) and combine them for affordable housing on a larger site.

Finally, the paper offers for local government planners and leaders suggested questions they should be asking of their land economics advisors in the current legislative and policy context.

Three Key Policy Considerations

The Provincial government introduced legislation November 2023, based on the the Homes for People plan, which will require municipalities allow at least 3-4 homes on each residential lot, and 6 homes in neighbourhoods with frequent transit. Read more [here](#).

Simply allowing gentle density housing through rezoning will not automatically mean that they will be built unless the financial conditions are right for property owners to take on the cost and risk of construction - here are three key considerations for policy makers.



Enabling Tenure Options (Ownership and Rental)

- **Allowing individual ownership, or strata-titling**, for each home on a lot will encourage more new units to be constructed versus requiring that a property have a single owner (i.e. the owner rents out the additional units, or all residents share a single mortgage). Reasons include:
 - » The more options available (build and sell, or build and rent out), the greater number of existing owners whose particular needs can be met through redevelopment.
 - » Separate ownership allows more households of varying incomes to participate in the market; “the best ‘mortgage helper’ is just a smaller mortgage” and with strata-titling households can buy what fit their needs and budget.

California Initiative

A new California law passed in October 2023, AB 1033, repeals a state ban on selling ADUs separately from the main house, allowing local governments to determine how best or if at all to allow the sale of ADUs. Cities that allow for sellable ADUs can create attractive, low cost options for homeownership.

Allowing a condominium sale of ADUs also will simplify financing for homeowners who may face challenges raising the funds to build an ADU, encourage owners who do not want to be landlords to consider building an ADU for sale, and allow families to offer a separate ownership to family members otherwise priced out of ownership.

Source: [Office of Assembly member Phil Ting - Fact Sheet](#)

Additional Resource: [Casita Coalition's Guidance Memo on California ADU Condominium Law](#)



- **The increase in land value associated with strata-titling can be balanced by the increased supply of new homes.** If the additional development potential is spread widely enough and not concentrated in only certain neighbourhoods, this reduces the impact on individual parcel value as well.
 - » Achieving that aggregate level of increased home supply depends on who can compete in the market - we need more small scale “mom and pop” developers who are not currently participating in the development industry to build on their land where they have equity, and put their resources towards adding new homes. Otherwise the existing larger-scale development industry, which is geared toward adding higher density buildings on a limited supply of rezoned infill sites, or replacing older small homes with larger detached homes, will not be able to increase supply to the level needed to improve affordability.
- **Many intergenerational/mixed household needs are better served by allowing separate ownership.** Intergenerational housing options can offer opportunities for caring for family members in ways that enable greater work force participation from parents and resilience in the face of economic fluctuations. Forcing families into single ownership scenarios (i.e. co-ownership, or shared mortgage between multiple households) can be a barrier to meeting the needs of households in the following ways:
 - » If a parent needs to move to assisted living or passes on, and one child’s household is not financially capable of “buying out” their share of the mortgage, the entire group of households is forced to sell the property and move.
 - » Because multiple households are on the same mortgage for the single title, everyone’s debt service ratio is affected and this requires each household to sign off on additional financing such as car loans or cell phone plans.



Leveling the Cost Playing Field and Reducing Risk

- Given that many potential multiplex builders, such as existing homeowners, and current detached home builders or renovators will not have the experience of a larger-scale developer, the more complicated it is to get approved, the harder it is to justify building them and the less supply will be achieved; these builders do not have the expertise or capacity to navigate a planning system like the one currently used for regulating complex apartment buildings (i.e. requiring detailed design drawings and review by Advisory Design Panels, before even submitting building permit drawings). Solutions to reducing cost and complexity include:
 - » **Off-the-shelf or pre-approved design options;** these are not just a way to reduce consultant fees, they can also deliver on the intangible value of approvals certainty, which will reduce the risk and hesitation “mom and pop” developers may have over a lengthy period of time waiting for permits and paying interest on construction financing.
 - » **Easily navigable processes;** when local governments reduce discretionary approvals (e.g. no development permit, or development permits delegated to staff with guidelines), this, in turn, reduces uncertainty for the development applicant.



Building-in Affordability

- **Requiring below-market units in small scale projects is financially and administratively challenging.** If cities want to take advantage of the additional value created through new development potential, it is likely preferable to combine financial contributions from multiple small scale sites and direct the sum towards affordability of a larger scale project. Other considerations included:
 - » The scenario of a “mom and pop” landowner choosing to build, then manage and administer (tenant selection, income verification, etc.) below market rental is not likely. Redevelopment of multi-unit housing is complicated enough - the risk is if the process gets too complicated, people won't build it.
 - » Most non-profits that manage other multi-unit below market housing wouldn't have the capacity or economy of scale to administer single units across multiple sites.
 - » Extracting the additional value of development potential would reduce the production of small scale housing by making it less financially attractive to develop this type of housing relative to developing as a detached house which is not subject to this extraction.

What Questions Should Municipalities be Asking?

- **Rather than focusing on ways to “capture” and extract value created through development potential, think about and ask how you can create the maximum social value through new housing.** Don't make the new development minimally desirable/valuable through restricting the size of the unit and limiting stratification, but think about what actually makes people happier and craft your policies to achieve that. There is a sentiment in some communities that new housing is a disamenity or social ill, but rather it should be recognized as a good thing for our communities, that can also generate additional revenue through property taxes.
- With provincially-mandated upzoning coming, developers will not need to apply for rezonings to increase density, losing the opportunity for municipalities to capture land lift in rezoning processes. **Consider asking how you might measure existing land values and standardize capturing the additional value created by broad upzoning.** At the same time, the system of capturing land lift through Community Amenity Contributions (CACs) is based on a scarcity of housing and we should be aiming to drive CACs to zero by addressing the scarcity of housing. If you are looking to capture value, think about ways to standardize that rather than making it very discretionary and different on each site.
- **Consider the form of multiple homes per lot that are most appropriate** and desirable in your community; it may be that in more rural areas or outer suburbs with more developable land that small lot subdivision into several detached houses (i.e. a cottage cluster/courtyard) is going to meet the needs of residents more than a multi-unit houseplex.
- **Consider the long-term approach to financing growth and providing services** in your community; if you are over reliant on ‘growth paying for growth’ plus other community benefits, this financial model may be unsustainable when growth does not extend indefinitely into the future. The financial system should encourage efficient use of land and buildings and the property tax system should reflect this.