



Backgrounder on the Assessment of Demand for HPO Reconstruction Program

Origins

In 1998, the Homeowner Protection Office was established in response to the recommendations of the Barrett Commission on the leaky condo crisis. The HPO's responsibilities, under the *Homeowner Protection Act*, are:

- To license residential builders and building envelope renovators;
- To monitor the system of privately-provided home warranty insurance established under the Act;
- To provide the Reconstruction Program of financial assistance to owners of water-damaged homes; and
- To establish and operate a program of research and education for the benefit of the residential construction industry and consumers.

Since the introduction of the Act and the accompanying changes to building codes and practices, building envelope failure has become a thing of the past in new construction.

The Reconstruction Program

The objective of the Reconstruction Program was to ensure that no one had to lose their home due to inability to pay for the cost of building envelope repairs in buildings that were constructed in the coastal climatic zone between approximately 1982 and 1999 (the period). The most usual form these costs take is a special levy set by a strata corporation to cover the repair and associated costs.

Eligible owners are owner occupants with less than \$10,000 in liquid assets in buildings where an engineering report has confirmed the need for a repair to be undertaken by a licensed building envelope renovator. Financial assistance takes the form of no-interest mortgage loans, which may be with a financial institution or with the HPO directly. Recipients repay the principal amounts on a basis suitable to their financial capability. For seniors the repayment of principal can be deferred until the property is sold. Rebates of Provincial Sales Tax on repair components are also provided.

The Program is funded by a Reconstruction Fee of \$750 on each new multi-family housing unit constructed in the coastal climatic zone.

Approximately 160,000 units of strata apartment and townhouse/row house housing were built in the coastal climatic zone during the period.

As of September 30, 2007, an estimated 32,000 strata apartment and townhouse/row house units in the affected buildings had been repaired. The Program had approved more than 13,226 loans representing more than \$460 million in financial assistance. PST relief grants have totalled \$21.5 million.

Pursuant to an agreement between the HPO and Canada Mortgage and Housing Corporation (CMHC), the HPO pays the interest on loans advanced by CMHC to repair federally funded cooperative housing buildings. As of September 30, 2007, a total of 63 buildings containing 3,475 units had been approved for funding, representing a total value of \$254 million.

The Program has been successful in ensuring that buildings are repaired without undue hardship for the owners affected. All of the condominium units repaired have recovered all or more of their original assessed values.

Assessment of Future Demand for the Program

It is estimated that 42,000 of the 72,000 strata apartment units (this estimate does not include townhouse/row house units) built during the period will require major repairs. Their owners will be eligible to be considered for assistance under the Program. In addition, steady increases in the average value of loans can be expected to continue as a result of rising construction costs and the impact of delays in undertaking needed repairs.

Conclusion

Notwithstanding the Program's considerable achievements to date, demand for assistance will likely remain high for the foreseeable future. In the light of the financial implications of this demand scenario, government and the HPO are reviewing the Program's operational policies, scope and scale and other issues to ensure that the Program meets its original intent in a fair, efficient and cost-effective manner.

Assessment of Future Demand

For the HPO Reconstruction Program

Executive Summary

Final Report
December 2007

Presented To:

The Homeowner Protection Office (HPO)

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Executive Summary

The Homeowner Protection Office (HPO) provides interest-free loans to qualified owners in the coastal climate zone of BC where their housing (primarily row house, townhouse and strata apartment units) has experienced premature building envelope failure. As of September 30th, 2007, over the nine years that the HPO Reconstruction Program has been in place, more than 13,226 loans have been approved.

The HPO is interested in looking at current patterns and trends in loan demand to gain a better understanding of the projected future demand. This report provides a quantitative analysis of BC Assessment data as well as loan data from the HPO Reconstruction Program to identify the total number of buildings and units which have been repaired to date. This report also seeks to develop a better understanding of the potential pool of developments which may be 'at risk' of premature building envelope failure and which have not yet been repaired.

Total Units Constructed

Data from BC Assessment shows that there were approximately 159,979 strata apartment and row house units in 10,346 buildings constructed in the period from 1982 to 1999 ("the period") in the coastal climate zone of B.C. Of these, 79% are found in Greater Vancouver. This report did not include within its scope, co-operatively owned buildings ("co-op's"), many of which have experienced major envelope failure.

Units by Type of Structure

Approximately 81% of all units constructed between 1982 and 1999 in the coastal climate zone of B.C. are in 4,628 strata apartment buildings (129,036 units) while the remaining 30,943 units are in 5,718 row house or townhouse developments.

Strata Units by Type of Construction (Wood Frame or Concrete)

Approximately 66% of all strata apartment buildings constructed in the period from 1982 to 1999 in the coastal climate zone are wood frame while concrete buildings represent 34% of the total. This translates into approximately 85,627 wood frame units in 3,781 buildings and approximately 43,409 concrete units in 847 buildings for a total of 129,036 units in 4,628 buildings.

Buildings/Units Which Have Been Repaired

Approximately 945 buildings or 20% of all of the units built in the period from 1982 to 1999 have been repaired to date. This finding translates into approximately 31,979 out of 159,979 units (10,346 buildings). Of the units which have been repaired, approximately 38% received HPO assistance.

The majority of the HPO loan demand is from the strata apartment segment of the market compared to row house or townhouse developments. Of the total HPO loan demand, approximately 5.8% has been from the row house/townhouse segment of the market.

Estimate of the Number of Wood Frame Strata Apartment Units Repaired

The Greater Vancouver region accounts for a significant portion of loan demand. Based on the BC Assessment data, 75% of all wood frame structures built during the period are found in the Greater Vancouver region. The analysis also shows that to date, approximately 31% of the wood frame developments constructed during the period. This represents 24,535 units in 733 buildings.

Estimates of the Number of Concrete Strata Apartment Units Repaired

While not as prevalent as wood frame developments, concrete structures have been a steady source of loan demand. Based on the available data approximately 6,129 units in concrete strata apartment developments have been repaired to date representing approximately 14% of the total.

Estimate of the Future Demand from the Concrete Segment of the Market

Demand from the concrete segments has remained a steady source of the loan demand. Anecdotal evidence suggests that there may be an increase in the number of concrete developments at risk of premature building envelope failure. To date this pattern is not necessarily reflected in the data, however, is important to monitor this as concrete buildings tend to be larger than wood frame (often 100+ units). As a result, a small increase in the number of buildings from this segment of the market could have a significant impact on the HPO Reconstruction Program.

General Patterns of Loan Utilization

The data suggests that in general the ratio between repaired units and units receiving HPO assistance is approximately 2.6:1. This means that for every unit which receives HPO assistance, there are 2.6 units which have been repaired including 1.6 units which have relied on other sources of equity.

Analysis of the HPO loan data also shows that of the loans approved through the HPO Reconstruction Program, approximately 81% have been to owners in wood frame buildings with a significant percentage of the loan demand coming from buildings in the Greater Vancouver region.

The analysis of the HPO loan data also shows that in recent years a larger percentage of units in a given building are qualifying for assistance. While loan data over the life of the program shows that approximately 39.86% of all units repaired over the life of the program have received HPO assistance, in the most recent three year period this number has increased to 45.62% and in fiscal 2007 the amount was 48.8%.

Summary of Cost Data for Strata Apartments Units

This report uses the average loan amount in the HPO data as a 'proxy' for the cost of repair. Based on the HPO loan data, there has been a significant escalation in average loan costs. The average loan amount increased from an average value of \$24,144 in 2000 to an average value of \$63,511 in 2007. This increase in costs can be attributed in part to increases in construction costs.

Estimates of the Number of Buildings and Strata Apartment Units Still to Be Repaired and Future Loan Demand

This report has used a number of sources to estimate the number of buildings and dwelling units that have experienced major envelope failure. There is no direct inventory of these buildings so an estimate has been made by utilizing property assessment data and the historical performance of the HPO Reconstruction Program. After extensive analysis and comparison to the Barrett Commission our estimate of the number of units experiencing major problems was calculated under four scenarios. The combination of the HPO loan data and the BC Assessment data enabled the study to estimate the number of strata apartment units repaired to date at 30,664.

Under the scenario considered to be the most likely scenario, there are an estimated 72,193 strata units with major envelope problems. Subtracting the 30,664 that have been repaired leaves an estimated 41,529 units presently requiring major repair. This scenario aligns with the trend analysis of the HPO loan data and the statistical analysis of the BC Assessment Data.

The second major estimate, and an important focus of this report, is the question of how this “pool” of problem units/buildings translates into demand for assistance under the HPO Reconstruction Program. Using scenario testing of low, medium and high demand scenarios this report estimates the loan demand for the period 2008 to 2012 will range between 6,631 and 10,329 loans/units. The aggregate dollar amount of these assistance loans is estimated to range between \$445 million and \$696 million.

The remaining question for this report is, after five more years of reconstruction and remediation how many units will remain un-repaired? This estimate is arrived at by combining the two foregoing estimates (the size of the “pool” of buildings/units with major problems and the pace of reconstruction) together with an assumption of the proportion of units repaired without assistance from HPO (assumed to be at the historical average of 2.6 to 1 or 38%). Accordingly, this report estimates that under the most likely scenario, the number of units still requiring repair after 2012 will range between 14,121 and 23,934. To provide some context, the estimated number of units requiring major work after 2012 will be between 19.6% and 33.2% of the estimated total number of units (72,193) constructed with major envelope problems within the study period.

To summarize, we estimate the total number of apartment strata units that experienced envelope failure totaled 72,193 of which 30,664 have been repaired to date. In the next five year period we expect between 17,595 and 27,408 units will be repaired and the remaining number of units still requiring repairs after 2012 is expected to be between 14,121 and 23,934.

Comment on the Statistical Analysis of the BC Assessment Data

This report used an extensive statistical analysis of the BC Assessment data for strata title units within the coastal climatic zone. The approach taken was to identify dwellings which had a year over year drop in value of 15% or more when compared with changes in the broader community. This “trigger” or threshold was used for identifying buildings which are experiencing premature building envelope failure. This report “tested” the extent to which there is a reasonable degree of alignment between the sample of buildings which were identified by BC

Assessment as reporting a drop in value of 15% or more and the buildings which have been identified as needing assistance through the HPO Reconstruction Program. Under this approach, the analysis suggests that there are 28,000 units which have reported a drop in value of 15% or more when compared with the broader community and which have received assistance.

The data also shows that there are approximately 59,507 units (2,873 developments) which have reported a drop in value of 15% or more but which were not identified in the HPO data set. These are buildings which may have experienced building envelope failure but which have undertaken the necessary repairs without the assistance of the HPO and/or which have only undertaken intermediate repairs. Our report suggests that while additional research is needed to validate the assumptions, it is likely that a significant percentage of these units will contribute to future HPO loan demand. Our analysis also suggests that of the 59,507 units, approximately 40,051 are in wood frame buildings while the remaining 19,456 units are in concrete buildings.

General Conclusions and Observations

Based on an analysis of past patterns and trends, this study confirms that the future demand for HPO loan assistance will likely remain high over the next 5 to 10 years. In particular, the analysis of the HPO loan data and the information captured in the BC Assessment data suggests that the respective pool of buildings (both wood frame and concrete) which are likely to experience premature building envelope failure is large enough to drive increased loan demand over the next five years and significant demand over the subsequent 5 years (perhaps at a diminished rate). There is also no evidence of abatement in terms of the rate or composition of loan demand. In addition, the analysis suggests that the demand from the wood frame segment of the market is expected to remain high.