

# RESEARCH REPORT



## Accessory Apartments: Characteristics, Issues, Opportunities



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**ACCESSORY APARTMENTS:**

**CHARACTERISTICS,  
ISSUES,  
OPPORTUNITIES**

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## ACCESSORY APARTMENTS CHARACTERISTICS, ISSUES, OPPORTUNITIES

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## **EXECUTIVE SUMMARY**

This report is the result of a "reconnaissance" investigation of the accessory apartment phenomenon, particularly as it occurs in Toronto, Montreal and Vancouver. The investigation has reviewed available statistics, relevant policy and program information, and previous research findings to determine the present significance of these units as a housing form, and to assist Canada Mortgage and Housing Corporation in assessing their potential future contribution to the supply of affordable housing.

### **Definitions**

- There is no uniformity in municipal and survey definitions of what constitutes an accessory apartment. In the most general sense, the term refers to a dwelling unit constructed largely within or as an addition to a single family home.

### **Extent of Incidence**

- Because of lack of uniformity in definitions it is not possible to determine how many accessory units currently exist. In addition, units are not always apparent from exterior dwelling inspections. Measurement is further complicated by the fact that large numbers of units have been created in contravention of municipal by-laws, and/or by landlords intending not to declare the rental income. These units may not be reported in official dwelling unit surveys.
- Using a variety of estimating techniques, researchers have concluded that between 10 and 20 per cent of single family dwellings in urban North America contain accessory units.
- An exception to this observation occurs in Montreal, where the single family housing stock is limited and additional dwelling units are typically created in owner-occupied duplexes. With a strong tradition of rental tenure and widespread multiple dwelling zoning that limits pressure on the rental market, accessory apartments have never been a significant component of the Montreal housing stock.

### **Observed Relationships Between Unit Type, Location, Age and Quality**

- As units constructed illegally are not subject to municipal inspection, most exist in varying degrees of violation of the building code applicable to legal units. These violations are likely to be most severe in units in older dwellings not constructed to current codes, and particularly in units in basements not originally intended for habitation.
- Unit quality is positively correlated with owner-occupancy of the larger dwelling. Owner occupants will normally want to have high quality units to attract desirable tenants, with whom they share their home. Absentee landlords, with less of a day-to-day personal interest in their tenants, may be less concerned about whom they rent to, and equip and maintain their units accordingly.
- A number of municipalities have found that continuing to allow illegal units to exist is a highly cost effective way to minimize complaints about exterior dwelling maintenance. Both owners and absentee landlords will not want to offend neighbors who might retaliate by reporting the existence of the unit and demanding by-law enforcement.

### Relationship Between Stock and Needs

- Over the past sixty years, production of accessory units have tended to peak at times when prospective and existing homeowners require supplementary ( rental ) income, and when the housing market is otherwise unable to satisfy demand for rental and ownership accommodation. Large numbers were created during the Depression, during and after the Second World War, and during the 70s and 80s as the baby boom generation moved first into the rental and then into the starter ownership market.
- In high demand markets such as Toronto and Vancouver, continuing in-migration from the rest of Canada and abroad has exacerbated the housing demand created by the maturation of the baby-boom. Under these conditions, with rental and ownership supply backlogs and high housing costs, accessory apartments have proliferated and are expected to continue to do so.

Outside high demand markets, baby bust demographics suggest that there will soon be significant reductions in requirements for both rental and ownership housing. Although health and safety concerns related to code violations in existing accessory units may continue to be an issue for municipal building departments, national demographic trends point to a likely decrease in aggregate numbers of accessory units in the majority of Canadian municipalities, given the high degree of elasticity of this particular form of rental accommodation.

### Socio-Economic Triggers to Conversion

- A pre-condition for the creation of an accessory unit in an owner-occupied situation is a mismatch between household size and dwelling size. This occurs most frequently with first-time buyers who do not yet have children, and "empty-nesters" or seniors whose children have left home.
- Another pre-condition is need for supplementary income. This occurs most frequently with first-time buyers who have limited equity and large mortgages, and with retired seniors, who may be mortgage free but "cash-poor". It is hypothesized that, in aggregate, needs of both these groups will decrease in future. The smaller "baby-bust" generation should encounter fewer affordability problems in the starter ownership market than its boomer predecessors. More senior households will reap monetary benefits from improved pension plans and increased female participation in the labor force.
- If owner space needs and income increase, existing dwellings with accessory units may be "deconverted" back to single family use.

### Effects of Legalization on Unit Numbers and Quality

- In response to growing concern about the changing character of their residential neighborhoods, a number of Toronto and Vancouver area municipalities who previously tolerated the existence of illegal units have recently begun to formally consider questions such as whether and where it is desirable to allow accessory units, what types of units should be allowed, what controls should be imposed, and how to maximize compliance with those controls for both existing and future units.

- Realizing the hardship that may be caused to renters and owners alike by forced unit closure, several of these municipalities have recently rescinded or are now reconsidering policies which would have resulted in widespread closure if strictly enforced.
- In most instances, where units are now permitted to become "legal" in areas which were previously zoned for single family development, legalization is contingent on compliance with building code requirements. Although these requirements may be less onerous than those imposed on other multi-unit dwellings, not all landlords may be able to afford the upgrades. Legalization of existing accessory units, if contingent on code compliance, can be counter-productive to the current supply of affordable rental and ownership housing, particularly in older areas where significant portions of the single family stock do not conform to current code requirements.
- If effectively enforced, legalization will also likely have negative effects on the volume of future conversions by discouraging existing and potential owners unwilling or unable to afford the increased costs of code compliance, and/or wishing to avoid declaration of rental income.
- However, legalization of accessory units does have important benefits. These include the elimination of health and safety risks to tenants, improved and more uniform quality of the residential stock, and a basis for protection of tenants' rights in registered and officially recognized units. Legalization also provides municipalities with the opportunity to increase their revenues from application, permit and inspection fees.
- Municipalities in the U.S. and Canada have tried to encourage legal conversions through programs which provide financial and procedural assistance in creating an accessory unit. These programs may marginally increase the numbers of new units legally produced, but they by no means eliminate illegal conversions.

#### Opportunities

- Although estimates of the potential for conversion have shown that a fairly significant number of units could ultimately be developed, most sources agree that accessory units will not:
  - solve the problem of massive shortage of affordable housing ( accessory units have lower than average market rents, but are not affordable for the lowest income groups );
  - provide a large number of units within a short time ( development depends on individual decisions made under widely varying circumstances );
  - be developed in large numbers by seniors needing income and/or assistance or be occupied by seniors ( many seniors do not want to sacrifice space and have "strangers" in their homes; most units are added by young people needing the rental income to pay the mortgage ); or
  - add to the permanent housing stock in the very long term ( units are added, occupied, then removed as needs change ).



- While the potential for accessory units to increase the supply of affordable accommodation is by no means uniformly assured, production of these units in many ways complements the concept of sustainable urban development with respect to more efficient use of existing housing stock and infrastructure, and energy conservation.

#### **The Federal Role**

- Apart from market forces affecting supply, the strongest influences on the quality, characteristics and distribution of accessory units are planning controls ( principally zoning regulations ) and building code specifications. In Canada, these influences are almost entirely outside federal jurisdiction.
- Ways in which Canada Mortgage and Housing Corporation may indirectly influence the production of accessory units include ( further ) dissemination of supporting information, ( further ) encouragement of regulatory reform, and demonstration of ways to develop housing that can be readily converted to accommodate an additional unit.

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## 1.0 INTRODUCTION

This report on accessory apartments has been prepared for the Research Division of Canada Mortgage and Housing Corporation by Paula Archer, principal consultant for Regional Real Estate Consultants, The Regional Group of Companies, Inc., in association with Jill McFarlane.

Our assignment was to conduct a "reconnaissance" investigation of accessory apartments, reviewing available statistics, relevant policy and program information, and research findings to date to determine the present significance of these units as a housing option, and to assist the Corporation in assessing their potential future contribution to the supply of affordable housing.

Our work has drawn on published source materials contained in CMHC bibliographies on residential conversion, supplemented with municipal research reports and theses recommended by academics and planning officials contacted during the course of the study. ( The wealth of literature gives credence to the observation that accessory apartments may be the most frequently studied housing phenomenon in North America. ) We have also utilized the Corporation's on-line searching capabilities to obtain printouts of recent newspaper articles dealing with accessory units. In addition, we have conducted telephone interviews with planning officials in a sample of metropolitan area municipalities to obtain their views on the importance of these units as a component of the local housing stock, and to discuss the issues related to their creation and maintenance as neighborhoods mature and change. We are particularly grateful to the Canadian Housing Information Centre for their assistance in accessing source materials.

In accordance with the project terms of reference, the research program has been concentrated on Canada's three largest metropolitan areas: Toronto, Montreal, and Vancouver, which together are home to over 30 per cent of Canada's total national population. At the outset, it is important to note that although these markets contain a significant proportion of the national housing stock and have been subject to considerable study and debate about accessory suites, they are by no means representative of the situation with respect to accessory units in the country as a whole.

It is also important to note that what constitutes an "accessory apartment" can vary considerably by region and municipality. Problems in aggregate measurement resulting from the lack of uniformity in definitions are compounded by the illegal status ( re. current zoning ) of some or all accessory units in all municipalities surveyed. As a large proportion of illegal units do not appear in official dwelling counts, and a proportion of otherwise legal units may not be reported by owners not wishing to declare the rental income, all attempts to ascertain actual numbers of accessory units without dwelling by dwelling interior inspections are, at best, estimates with varying degrees of reliability. As a result, this report, like all others on the subject, is unable to provide precise data on the extent to which accessory units exist in our three major metropolitan areas.

Finally, some of our findings have seemed relevant to several aspects of the accessory apartment phenomenon. While we have tried to minimize instances of repetition, a number of points do appear in more than one section of this report.

## **2.0 CHARACTERISTICS OF ACCESSORY UNITS**

### **2.1 EXTENT OF INCIDENCE IN MAJOR MARKETS AND ELSEWHERE**

#### **Definitions**

As mentioned in the introduction to this report, estimating the incidence of accessory apartments is complicated by lack of uniformity in definitions of what constitutes an accessory unit. Definitions vary in both everyday and legal meanings. In the most general sense, the term refers to dwelling units constructed largely within or as an addition to a single family home.

The variations in meaning focus on certain aspects of this type of dwelling unit:

"Accessory" or "Secondary". Is the unit clearly a secondary use to the primary use of accommodating a single family? In some areas this is part of the definition. In those cases, a house reconstructed to provide two equivalent units would be a duplex. In fact, in many older parts of most cities one often finds very large old houses which have been converted to several apartments. These are not considered "accessory units" but are considered apartments. One jurisdiction has recently incorporated "secondariness" into its code; in the District of Surrey, suites must be less than 75 sq.m. to be eligible for legalization in single family zones.<sup>1</sup>

"Dwelling Unit". What is a dwelling unit? This varies significantly from place to place. Usually a dwelling unit requires separate sanitary and cooking facilities. Anything less would generally be considered a rooming or boarding arrangement, though some municipalities define the dwelling unit by cooking facilities and would therefore consider any arrangement having two kitchens to be illegal. However, some jurisdictions also define a dwelling unit as having a separate entrance as well. Therefore a house with two kitchens would not be considered as having an accessory unit. In Toronto, this arrangement, when occurring on separate floors of a house, would be known as a "flat", while a "flat" in Montreal is a self contained, vertically separated unit with its own entrance.

"Single Family". This term is the icon of neighborhood integrity for many people and the subject of several court challenges when incorporated into zoning by-laws. Many cities have tried to define the "family" or household unit equivalent to "family" without violation of Human Rights codes. Similarly the facilities available to the "family" within their dwelling are variously defined and limited. The position of resident grandmothers within homes and the cooking facilities they would be allowed changes across adjacent municipal boundaries.

On a national basis, Statistics Canada does not have a clear category for accessory unit conversions after construction. Within their definitions, "conversion" is "the number of dwellings added by conversion of existing structures" according to building permit data. However, an accessory unit could fall into several different dwelling categories, or be missed altogether if the homeowner includes the tenants as part of the household or calls them lodgers or boarders.

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<sup>1</sup> Telephone conversation with Jane Caselton, Policy Analyst, District of Surrey, October 16, 1990.

A picture of the variety of definitions used in regulations in the major metropolitan areas can be drawn from a sample of definitions now in effect:

"Converted Dwelling" which means an existing dwelling on an existing lot in which the number of dwelling units has been increased ( without alteration to the exterior of the building except for the required fire escapes, extra windows and entrances ) and provided that the building when converted complies with the provisions of the "Building by-law and the parking provisions..." ( Ottawa )

"Dwelling Converted" shall mean a dwelling ( more than thirty years old ) altered to contain a greater number of units" ( North York )<sup>2</sup>

In Vancouver in December 1989, three types of suites were to be permitted in both RS 1 S and RS 1 zones: Infill One-family Dwelling; Multiple Conversion Dwelling; and Multiple Dwelling. The Infill Dwelling could include only a caretaker suite of less than 75 sq.m. on a minimum .3 ha lot. Multiple Conversion Dwellings could have up to three units, one for the family, one for a relative and one for the caretaker. The suites had to be accessible from the principal dwelling unit. In an RS 1 S Zone the definition differed for Multiple Conversion dwelling and there was an additional category of Two Family Dwelling. In the latter, access had to be available from one dwelling unit to the other within the building.<sup>3</sup>

The issue of an appropriate working definition has been a subject of serious consideration for many municipalities in recent years. The Province of Ontario, as part of its new Housing Policy, has required municipalities to consider intensification in Official Plans. Vancouver area municipalities have similarly proposed new definitions in the course of responding to well known market pressures in that area. Some proposed definitions include:

1. "Accessory Apartment" is an additional, self-contained, supplementary dwelling unit added to an existing single or semi-detached dwelling, by the conversion of the existing space within the dwelling."<sup>4</sup>
2. "An accessory apartment is a separate complete housekeeping unit that is substantially contained within the structure of a single-family unit, but can be isolated from it."<sup>5</sup>

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<sup>2</sup> Lewingberg Consultants, "Neighbors in your Neighborhood" Ontario Ministry of Municipal Affairs and Housing, Toronto 1988.

<sup>3</sup> W.T. Stanbury and John D. Todd, "The Housing Crisis: The Effects of Local Government Regulation", The Laurier Institute, Vancouver, January 1990.

<sup>4</sup> Corporation of the City of Etobicoke By law 1990-176.

<sup>5</sup> Patrick H. Hare, "Using Surplus Space in Single Family Houses", American Planning Association, 1981.

The number of accessory units measured or estimated by a municipality will also depend on the legal status of those units. Legal status varies even more widely than the definition of accessory units. Variables affecting legal status include not only sanitary, cooking and entrance issues but also ceiling height, window area, ground level, age of dwelling and parking configuration.

Illegality encourages under-reporting in official dwelling unit surveys. An additional factor contributing to under-reporting is the desire to avoid declaration of rental income obtained from the accessory unit.

A number of estimating techniques have evolved to counter the problem of under-reporting. These will be discussed in detail in Section 3.

### General Estimates

Based on current estimating techniques, observers of the accessory apartment phenomenon suggest that between 10 and 20 per cent of what would otherwise be viewed as single family dwellings in urban North America contain accessory apartment units.<sup>6</sup> The percentage may be higher in areas with high house prices and low rental vacancies.

With respect to rates of creation of accessory units, U.S. sources estimated that, on a national basis approximately 100,000 units per year were added during the 70s, and that production was slightly higher during the 80s, at approximately 130,000 units per year.<sup>7</sup> Our review did not uncover comparable estimates for Canada; however, interpolating the U.S. figures on a 10 to 1 basis suggests that accessory unit production in Canada could have occurred at approximately 10,000 units a year during the 70s and 13,000 units a year during the 80s.

However, in the Province of Ontario, the conversion of existing residences to create accessory units is estimated to have been occurring at a rate of 8,000 a year, with 70 per cent of these not in conformance with local by-laws and codes.<sup>8</sup>

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<sup>6</sup> Janet Mai-Lau Lee, "Responding to Future Housing Needs: Residential Intensification in Single Family Neighborhoods", M.A. Thesis, School of Community and Regional Planning, University of British Columbia, January 1989.

<sup>7</sup> Martin Gellen, Accessory Apartments in Single Family Housing. New Brunswick, N.J.: Centre for Urban Policy Research, Rutgers University, 1985.

<sup>8</sup> Sue Corke, Housing Advisory Task Force, Ontario Ministry of Housing, as quoted in "Options: Housing for Older Canadians", Halifax, Nova Scotia, October 17-20, 1988, Conference Proceedings, Canada Mortgage and Housing Corporation, 1989.



### Municipal Estimates

Given the difficulties inherent in counting units that may be both hidden from exterior view and undeclared, most municipalities are not preoccupied with verifying precise numbers within their jurisdictions. With limited staff time and resources, they may rely on larger area estimates to get a general idea of the percentage of dwellings within boundaries that contain accessory apartments.

Information on municipal estimates as reported in the literature and in conversation with planning officials is presented in Table 1 below. Numbers of units does not equate to numbers of units in single family dwellings, as accessory units may also exist in duplex and semi-detached dwellings.

**TABLE 1**  
**INCIDENCE OF ACCESSORY UNITS**  
**SELECTED MUNICIPAL AND INDEPENDENT ESTIMATES**

Metropolitan Area	Municipality	Date of Estimate	Number of Accessory Units	Percentage of Single Family Stock With Units
Toronto	North York	1988	10,000-20,000	≥7 ( per cent of singles and semis )
	Scarborough	1990	14,000	15 in older areas
	York	1987	6,500	n/a
Vancouver	City of North Vancouver	1989	1100-1200	18
	District of North Vancouver	1986	2,000	11
		1990	4,000	20
	Mission	1990	500	10
	Surrey	1990	5,000	10
Montreal	City of Montreal	1986	26,500	37
		1990	21,500	30
		current	20,000	35-40 per cent of <u>duplex</u> stock

Source: Information Compiled by Regional Real Estate Consultants.

## 2.2 THE MONTREAL EXCEPTION

An accessory apartment as a second unit in what would otherwise be considered a single family dwelling is far less prevalent in the City of Montreal and immediate municipal environs than in comparable central locations in the Toronto and Vancouver metropolitan areas. Reasons for this difference are rooted in more pervasive multiple dwelling zoning, which, along with a strong tradition of rental tenure, has encouraged the development of "plexes" to a much greater extent in the Montreal area.

A typical situation is for one or two supplementary units to be created in an owner occupied duplex, adding a unit in the basement and/or on the second floor of the dwelling. Because the plexes are in multi-family zones, the additional units are legal. It is estimated that between 20 and 25 per cent of Montreal's rental stock is in plexes. In 1981, the last census year for which published counts of duplex stock are available on a municipal basis, there were 51,570 duplexes recorded in the City of Montreal. ( However, this census count of duplexes is recognized to also include many triplexes and quads. )

Because the "plex" stock is largely post-war, and typically features raised basements, the health and safety concerns related to basement units in older dwellings are less of an issue in Montreal than in many other municipalities. Between 35 and 40 per cent of duplexes also have a basement apartment.<sup>9</sup> However, basement units may be expressly prohibited in areas zoned for multi-family occupancy if the basements generally do not have adequate clearance above ground or if moisture barriers are insufficient for a comfortable living space.<sup>10</sup>

Because plexes occur less frequently in suburban areas, an additional unit in what would otherwise be a standard single family dwelling is more common along the south shore and in the west island. These accessory apartments have been legalized in single family zones in municipalities where they were particularly widespread ( e.g., Chateaugay, St. Hubert ), and in selected areas where they are heavily concentrated or where owners have acquired rights based on the long term existence of the second unit ( e.g., Longueuil, Pointe-Claire, Brossard ).<sup>11</sup> But accessory units have not been found at frequencies approaching those estimated in suburban Toronto and Vancouver. In 1986, there were 137 known and legal accessory units in single family homes in areas zoned exclusively for single family dwellings in the municipality of Chateaugay, which had a population of 3,000 and 9,900 single family dwellings at that time.<sup>12</sup>

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<sup>9</sup> Telephone conversation with Ahn Trinh, Quebec Region, Canada Mortgage and Housing Corporation, October 17, 1990.

<sup>10</sup> Jean Russell, "Make Basement Suites Legal Four-plex Owner Asks Dollard", The Montreal Gazette, April 12, 1990.

<sup>11</sup> Marcel Gaudreau, in collaboration with Diane Frappier, "Les ajustements résidentiels initiés par certains groupes sociaux à l'intérieur du parc domiciliaire existant," prepared under the CMHC External Research Program, February 1984.

<sup>12</sup> Diane Frappier, "Les logements secondaires dans les quartiers d'unifamiliales de banlieu: exploration d'un phénomène caché et méconnu." Thesis, Planning School, McGill University, December 1987.

Because accessory units are less important as a component of the housing stock and much less of a planning issue in Montreal, it was decided to concentrate our research efforts on Toronto and Vancouver.

### **2.3 OBSERVED RELATIONSHIPS BETWEEN UNIT TYPE, LOCATION, AGE AND QUALITY**

In the course of research on the incidence of accessory apartments, certain observations on the relationships between unit and neighborhood characteristics have been made often enough to lend themselves to generalizations about the existence of these units.

For example, the occurrence of basement units is inversely related to age of neighborhood. Not surprisingly, this is because basements in older houses, in older neighborhoods, were usually intended solely for storage, rather than habitation. As a result, they are often shallow, damp, dark, and therefore relatively expensive to convert into an accessory unit that, at minimum, provides marketable living space. They are even more expensive to convert to accommodation that conforms to code requirements. The health risks that may be associated with basement apartments have led to their prohibition as an accessory apartment form in certain areas where above grade units are legal. On the other hand, basements in newer suburban dwellings are more frequently designed to be habitable, and present fewer impediments to conversion.

Illegality is most frequently associated with basement apartments because they are the most common form of accessory unit in the suburban housing stock, and zoning that prohibits accessory units is more prevalent in suburban areas.

An additional observation about basement units is the inverse relationship between age and quality. Frequency and severity of code violations may be expected to be greater in units created in pre-war dwellings than in those in newer dwellings where basements have been constructed for habitation.

Conversely, above-grade units are more prevalent in older neighborhoods where the housing stock has poor quality basements and large upper stories with conversion potential. Because they are created in parts of a dwelling originally intended for habitation, building code violations are likely to be less numerous and less severe. And because they are the prevalent accessory unit type in areas more likely to have multi-unit zoning, above grade units are less likely to be illegal in the neighborhoods where they are found.

Another variable that has been found to affect unit quality is type of landlord. In owner-occupied situations, where the landlord has a personal, day-to-day vested interest in attracting and retaining the best possible tenant for his unit, unit quality tends to be higher. With an absentee landlord, there may be less incentive to maintain unit quality.

With respect to overall maintenance in dwellings with accessory units, type of landlord appears to be less important than legal status of the unit. One of the more notable findings of this research was that more than one suburban municipality sees "illegality" as an extremely cost-effective way of minimizing complaints about exterior maintenance. All owners of dwellings with illegal suites are well aware of the importance of not offending neighbours who might retaliate by reporting the existence of the suite and demand strict by-law enforcement.<sup>13</sup> In instances where units are permitted ( although perhaps undeclared and/or not in conformance with local codes ), the consequences of complaints are less severe, and it is hypothesized that instances of the worst unit and overall dwelling quality may be found in absentee landlord situations in neighborhoods where accessory units are not expressly prohibited.

Relationships between unit size and age, type and location are less readily apparent. What seems more important is dwelling size and configuration, in terms of how much space is physically available for a second unit, and the space requirements of the owner's household at the time of conversion in owner-occupied situations. Presumably, an owner-occupant would want to create the smallest unit that would satisfy his rental income requirements, in order to maximize the amount of space left for his personal household use. Presumably, an owner-occupant creating an illegal unit would also realize that a small unit, with one or two tenants, would be less likely to attract attention or cause the neighbours to complain.

In absentee landlord situations, where the owner's household space requirements are not relevant to the division of space at time of conversion, unit size and configuration will more often be the "least cost" way to compartmentalize the dwelling.

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<sup>13</sup> Lee, *op. cit.*

### **3.0 ISSUES**

#### **3.1 THE MEASUREMENT CHALLENGE**

##### **State of the Art Estimating Techniques**

Despite the difficulties arising from the definition of "accessory units", there have been many practical approaches to estimating the number of units within detached dwellings. Many of these efforts have not been directed to counting units in terms of legality, illegality, type of code violation or other details, but simply have attempted to establish the overall number of units of all types.

The most official forms of data, census and assessment records, have not been particularly useful in estimating accessory units because illegal units are not completely or accurately reported for either purpose.

The City of Thunder Bay used census records for one estimate of the number of conversions occurring between 1971 and 1981. They examined the increase in the number of duplexes and compared that increase to the number of building permits for that purpose. This provided a reasonable working estimate of the extent of conversion. However, in an area experiencing extensive de-conversion simultaneously with conversion, such figures would be highly inaccurate. Some de-conversions would appear in building permit records, but many de-conversions could easily be carried out as family do-it-yourself projects for which no permit would be sought.

One fairly common estimating method in Ontario is an analysis of Multiple Listing Services' properties for sale. The listings include "in-law" suites, apartments, extra kitchens and baths or other features constituting an accessory unit. Though this method provides a great deal of detail about the properties and is independent of legal status and problems of definition of "accessory unit", the accuracy of the estimates must rest on the assumption that properties for sale are a reliable reflection of the total housing stock.

In B.C., a number of municipalities have relied on records of dual telephone lines into a single residential dwelling as an indicator of the existence of a second unit. However this method requires adjustments for children's and business phones, and for the absence of a telephone in some low income households.

A more accurate approach is to walk through an area and visually inspect each property. Though the most illegal and unhealthy basements might not be noticeable, as the windows would be small and inaccessible and there would be no separate entrance, the majority of units can be seen and a total number estimated. This method was used in several municipalities on a small scale, with results used as a basis for city-wide estimates.

For greater accuracy, it is necessary to enter a building and see whether another unit is in fact located within the house. This cannot be done by building officials without cause, nor by zoning officers. If units are illegal it would be ineffective to knock on doors inquiring about the inhabitants' violations of municipal law.

To inspect without inspecting, some cities have used other agencies, who are doing a regular inspection for some other purpose to note the number of accessory units. Burnaby, B.C. asked the water company staff who were inspecting meters and service to note the number of units in the structure.

#### Useful Typologies of Stock and Neighborhoods

In trying to pinpoint areas where conversion is most likely to have occurred, it may be helpful to work backward from typologies which address conversion potential. A stock-based typology of physical conversion potential is presented in Table 2 below. In older neighborhoods which have had stock and socio-demographic characteristics conducive to the creation of second units in single family dwellings, relatively large numbers of accessory apartments may already exist.

**TABLE 2**  
**CONVERSION POTENTIAL**  
**BY DWELLING TYPE**

House Type	Date of Construction	Dwelling Size (m <sup>2</sup> )	Lot Frontage (m)	Conversion Potential	Notes
2-3 storey "Victorian"	1900s-1920s	140+	6 - 8	high for dwelling	inadequate parking
1 storey bungalow	1920s-1940s	50-80	8 - 11	limited	inadequate basements and parking
1 1/2 storey	1950s	85	9 - 15	dependent on availability of basement	additional parking readily accommodated
1 storey	1950s-1960s	140-170	18+	high	no physical restrictions
2 storey townhouse with grouped outside parking	late 1960s-1970s	90-110	6	moderate	full basement; potential for additional shared parking
2-3 storey townhouse with built-in garage	1970s-1980s	85-140	6	limited	narrow layout imposes design constraints; inadequate parking
2-3 storey with attached garages	1980s	90-110	9	moderate	full basement; potential for front yard parking
2 storey with double garage	recent	140-150	15	high	no physical restrictions

Source: adapted from Richard Drdla Associates, in association with The Starr Group, "Potential Housing Supply and Residential Conversion", Etobicoke Housing Statement Background Report #3, March 1988.

### **3.2 RELATIONSHIP BETWEEN STOCK AND NEEDS**

#### **Historical Overview**

An examination of the frequency of creation of accessory apartments during the last 60 years reveals that peaks have occurred at times when prospective and existing homeowners are least able to afford the costs of ownership, and/or the housing market is otherwise unable to satisfy demand for rental accommodation. For example, production of accessory units was encouraged as a means of enabling mortgagees to obtain supplementary rental income to meet their payments during the Depression, and as a means of providing additional accommodation in the absence of a viable residential construction industry during and immediately after the Second World War.

In Vancouver, with the easing of post-war demand, the City decided to phase out secondary suites in 1956, but those in existence at that time were given a reprieve. Closure of all suites in single family zones was ordered in 1959, but two years later temporary suites intended for occupancy for family members were allowed. In 1963, exemptions for those suites whose closure would create financial or medical hardship for landlord or tenant were granted.

In an atmosphere of laissez-faire, production of accessory units accelerated during the 70s and 80s, in response to the dramatic increase in numbers of households as the baby-boom generation came of age, moving first into the rental market, and then seeking homeownership in a period of high interest rates and rapidly rising purchasing costs. The "Vancouver special", a disguised duplex that was designed expressly to accommodate a second unit, was particularly instrumental in the dramatic increase in accessory units in Vancouver during that time. There were an estimated 3,000 to 6,000 accessory units in the City of Vancouver in 1976; by 1986, estimates were as high as 26,000.<sup>14</sup> In terms of frequency of occurrence, up to one-third of all detached houses were thought to contain suites.<sup>15</sup>

#### **The Current Situation**

The relationship between stock and needs at the present time is complicated by recent changes in municipal attitudes. In response to growing public concern about the changing character of residential neighborhoods, the City of Vancouver moved in 1986 to exercise tighter controls on secondary suites in areas with single family zoning, and other area municipalities are contemplating similar action, or have already instituted tighter controls. In the City of Vancouver, suites intended for occupancy by family members were given conditional status, with permits to be renewed biennially.

Neighborhood plebiscites were to determine the continued legality of non-family suites. In those areas where the plebiscite was against non-family suites, these were to be phased out over a ten-year period, with date of closure directly related to severity of building code violations.

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<sup>14</sup> J. David Hulchanski, "Rental Housing Trends in the City of Vancouver", Research Bulletin, VBC Centre for Human Settlements, April, 1989.

<sup>15</sup> Stanbury and Todd, op. cit.



In areas where non-family suites were to be permitted, existing suites were to be brought into conformance with new building and fire safety regulations which, while less stringent than those applicable to multiple unit buildings, can be extremely expensive to comply with. For example, the costs of installing the domestic ceiling sprinklers now required can range up to \$10,000 in older homes. The minimum ceiling height of 2.1 m may cost up to \$40,000 where basement excavation is involved.<sup>16</sup> In face of these high compliance costs, existing landlords may choose to close down their suites rather than incur expenses that may equate to many years' rental revenue; prospective landlords may be deterred from undertaking conversions, or conversions that comply with codes.

A series of plebiscites were conducted until mid-1990, at which time a one year moratorium was declared because of upcoming municipal elections.

With continuing near zero rental vacancy rates, local observers suggest the next Vancouver City Council might well take a more liberal attitude toward accessory units. Possibilities include discontinuing the neighborhood reviews, lengthening the phase-out period, lengthening the renewal period for family suites and/or broadening the definition of family, and more rapid rezoning to allow revenue suites in formerly single family areas.<sup>17</sup>

In the District of Mission, homeowners with illegal suites can now request that they be legalized, subject to spot rezoning following a public hearing. To become legal, suites must meet National Building Code requirements with respect to fire separation, sprinklers, smoke detectors and parking. Owners must also pay a \$600 rezoning fee. It is estimated that there are over 500 owners of illegal suites, and close to one-third of them have applied for rezoning since the policy came into effect in April 1989. City staff admit that the others may have been deterred by the costs involved.<sup>18</sup>

The District of North Vancouver, which had instituted a policy of phasing out all but family suites by 1995, subsequently rescinded the policy after research undertaken by the Social Planning & Research Council of British Columbia demonstrated the long term importance of suites to the stock of affordable housing in the District, and how the policy would not bring about the closure of suites operated by landlords not registering for phase-out.<sup>19</sup>

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<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> Michael Goldberg and Bruce Levens, "Secondary Suites in the City of North Vancouver", Social Planning and Research Council of B.C., September 1990.

<sup>19</sup> Conversation with Rupert Downing, Planner, District of North Vancouver, October 18, 1990.

In the Toronto area, as a result of the City's less exclusionary zoning, accessory apartments are an accepted phenomenon. The City of Toronto is responding to demand pressures by taking advantage of provincial assistance to encourage homeowners to create additional units which conform to building code requirements through the Home Planning Advisory Service Program. Current levels of financial and administrative support are insufficient to fully compensate for the increased costs and inconvenience associated with code conforming conversions, ( with permit fees, building material and labor costs, the former can easily exceed \$40,000;<sup>20</sup> the provincial interest free loan is \$7,000 ). It is hypothesized that the Home Planning Advisory Service does not affect the total number of ongoing conversions, but does increase the number of conversions that are undertaken according to code. Initial results, for September 1989 to June 1990, show completion of at least 46 units through the program within the period, after approximately ten times that many initial inquiries.<sup>21</sup> Evaluation of a similar program operating in the San Francisco Bay Area from 1985 to 1988 reported 691 inquiries resulting in 43 units completed with program assistance.<sup>22</sup>

In surrounding metro Toronto municipalities, where single family zoning is more prevalent, local councils face situations similar to those in greater Vancouver with respect to likely consequences of legalization; i.e., costs of code compliance may result in decreases in numbers of current and future units, regardless of level of housing need.

The negative effects of ongoing legalization on the stock of current and future accessory units will be discussed in greater detail in this report.

### Pressures of High Demand

In the Toronto and Vancouver markets, high levels of national and international in-migration in response to economic opportunities have put additional pressure on the supply of both rental and ownership accommodation. Over 100,000 people have moved into the Lower Mainland since Expo '86, making it virtually impossible for development to keep pace with population growth. Prices for both new and existing dwellings have been among the highest in the country. Rental supply problems have been exacerbated by conversions to condominium tenure. In the decade 1979 - 1988, close to 2,500 rental units were converted to condominiums<sup>23</sup> ( although some of these may continue to provide rental accommodation ). Another factor which has limited the supply of rental accommodation in Vancouver is pervasive single family zoning. As shown in Figure 1, prior to the introduction of neighborhood plebiscites, approximately 70 per cent of the City of Vancouver was zoned to prohibit multiple dwelling units.

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<sup>20</sup> John Robinson, "Cozy Rental Unit Puts Basement to Work", The Toronto Star, June 3, 1990.

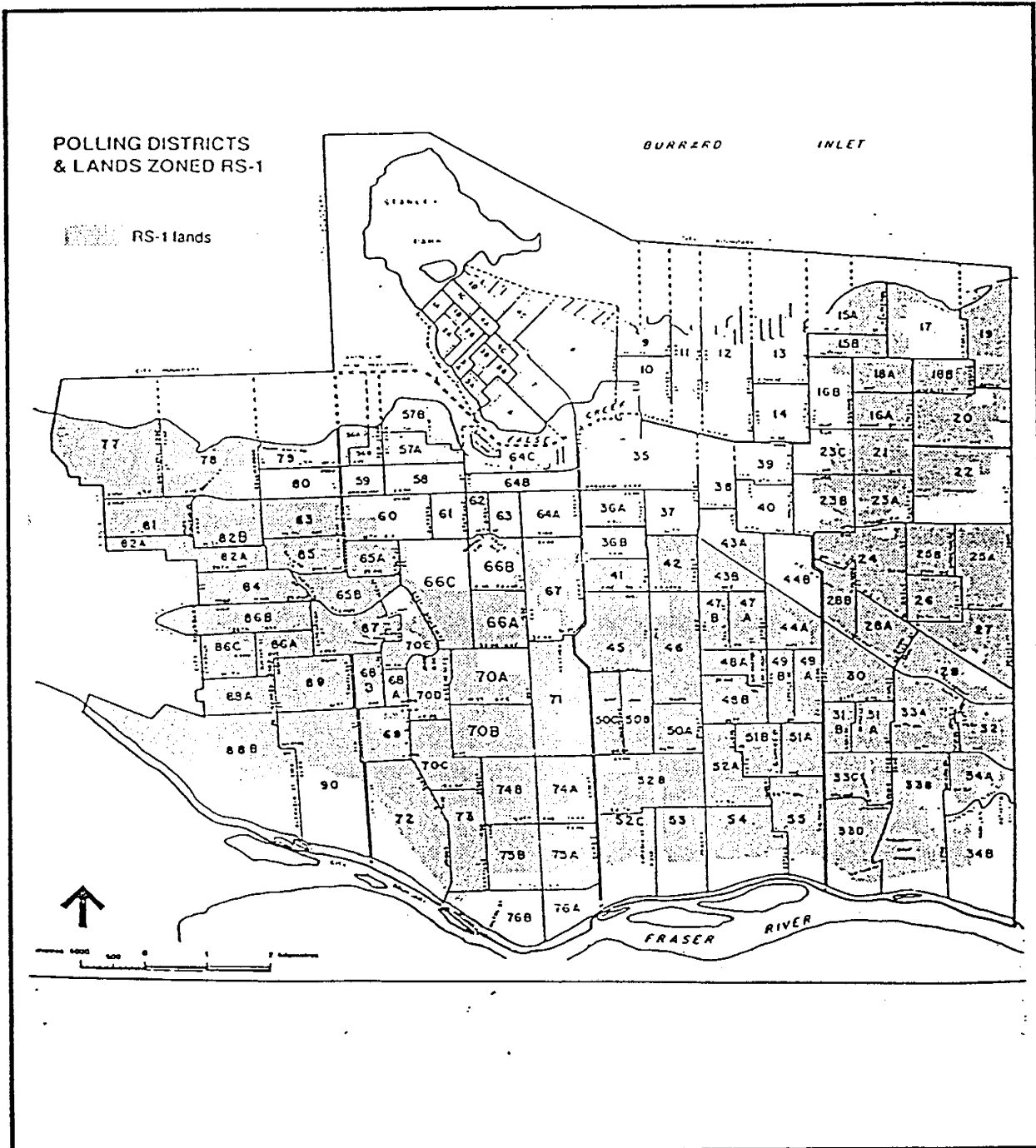
<sup>21</sup> Toronto Home Planning Advisory Service, "Annual Report 1990", for the period 2 September 1989 - 30 June 1990.

<sup>22</sup> San Francisco Development Fund, "The Evaluation of the Double Unit Opportunity Program of the San Francisco Development Fund 1985-1988, September 1988.

<sup>23</sup> Hulchanski, *op. cit.*

# FIGURE 1

## CITY OF VANCOUVER LANDS ZONES RS-1, 1986



SOURCE : W.T. Stanbury & John D. Todd, "The Housing Crisis : The Effects of Local Government Regulation." The Laurier Institute, Vancouver, 1990

In Toronto, CMA population has grown by more than 200,000 since 1986. Dwelling prices have exceeded those in Vancouver. Although City of Toronto zoning is less restrictive with respect to multiple dwellings, rent controls ( which were abolished in B.C. in 1983 ), continue to inhibit the construction of large scale new rental accommodation. Under these conditions, it is hardly surprising that accessory units have proliferated as an alternative source of rental unit supply.

### **Baby Bust Demographics**

From a national perspective, to the extent that the growth in accessory apartments during the 70s and 80s occurred in response to the tremendous increase in numbers of young households it can be assumed that as the baby bust generation comes of age, and both the rental and starter ownership markets begin to shrink, the demand side conditions which support accessory apartment creation will be less apparent. However, in markets such as Toronto and Vancouver, where there are current supply backlogs, plus continuing high levels of in-migration, reductions in demand may be slower to occur, and of smaller magnitude.

Discussions with planning officials in several Vancouver area municipalities confirmed that, baby bust notwithstanding, there is no foreseeable decrease in the demand for accessory units in these areas.<sup>24</sup> Although the time horizon for the municipal planning process may be foreshortened by the frequency of municipal elections, the evidence gathered during the course of this research suggests that, particularly in Vancouver, the demand for accessory units should continue to buck national trends.

## **3.3 SOCIO-ECONOMIC TRIGGERS TO CONVERSION**

### **Socio-Economic Triggers to Conversion**

The creation, rental and or removal of an accessory unit within a house is an individual decision. That decision can be made on the basis of household needs and preferences. For example, a rental unit may be removed from the market because a teenage son or daughter wants to move into it, or the family needs more space for hobbies or storage or frequent overnight visitors. Such motivations would be difficult to quantify and nearly impossible to predict. Other motivations are clearly related to socio-economic conditions of the time and place.

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<sup>24</sup> Telephone conversations with Cheryl Kathler, Social Planner, City of North Vancouver; Robert Ross, Deputy Director of Planning, Mission; Rupert Downing, Planner, District of North Vancouver, October 1990.

The conditions for development of new accessory units cannot be seen in isolation from de-conversion. One review of Toronto work in the conversion field noted that the overall situation in regard to accessories was very fluid. It would appear from some of the documentation that as many units were being de-converted as were being converted.<sup>25</sup> In York, between 1979 and 1987, 407 rental units were added, while 1,198 units were removed.<sup>26</sup> This represents a net loss of 791 units. In Toronto, it is estimated that between 1976 and 1985, there was a net loss of over 10,000 rental units from previously converted houses.<sup>27</sup>

The housing market is the context for individual decisions regarding conversion. As noted earlier, a demand driven market with ever increasing housing costs creates incentives for conversion. In circumstances where both purchase price and rents are high, an accessory unit is a means for younger buyers to afford a house and for older people to have an extra income. In both cases, the size of the household makes it possible to sacrifice the storage or recreational space in favour of an accessory unit.

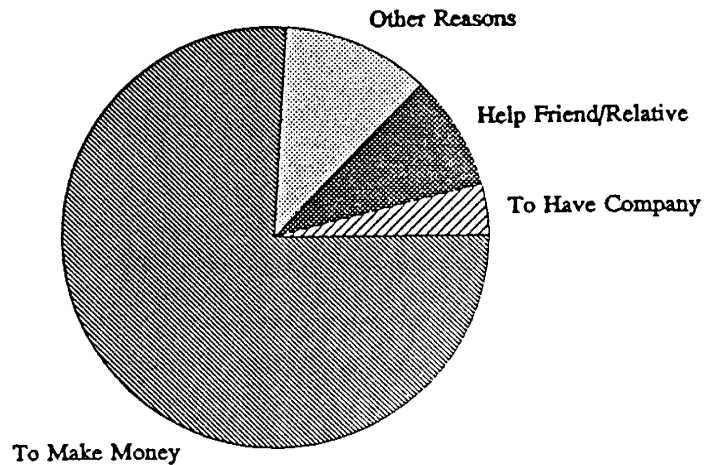
A study of accessory units was conducted by the Institute for Social Research of York University for the City of Toronto. In a sample of 264 owners currently renting units, 76 per cent stated that the most important reason to rent was to make money. Conversely, of those no longer renting a unit 45 per cent needed the space, 5 per cent no longer needed the money and 12 per cent wanted more privacy. These results are shown Figures 2 and 3 below.

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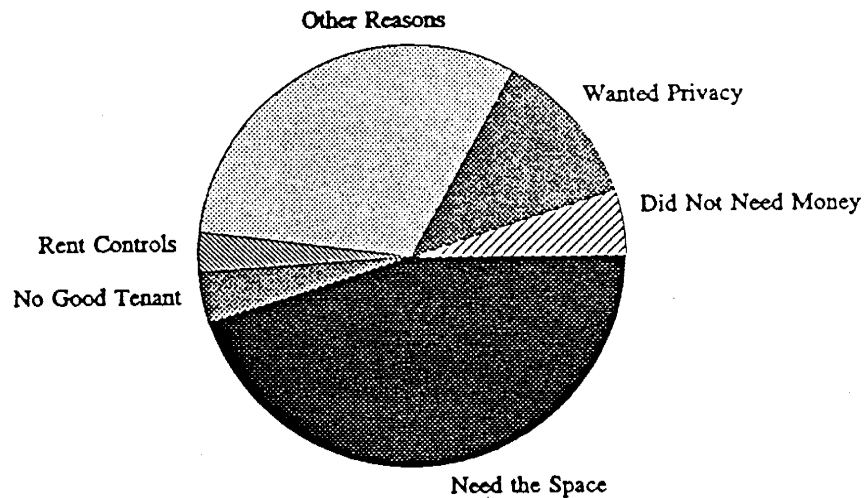
<sup>25</sup> Richard Drdla Associates in association with The Starr Group, "Potential Housing Supply and Residential Conversion", City of Etobicoke Housing State Background Report #3, March 1988.

<sup>26</sup> Warren Sorensen Associates Inc. et al, "City of York Housing Strategy", Phase I Report: Background and Analysis, January 1989.

<sup>27</sup> Robert Murdie and David Northrup, "Residential Conversions in Toronto: The Availability of Rental Units in Owner Occupied Dwelling in the City of Toronto and Owners' Experience in the Rental Market", Institute for Social Research York University, March 1990.

**FIGURE 2****REASONS FOR UNDERTAKING RENTAL CONVERSIONS**

*Other reasons include : to increase value of house, sense of social responsibility, to take advantage of government programs, etc.*

**FIGURE 3****REASONS FOR UNDERTAKING RENTAL DECONVERSIONS**

*Other reasons include tenants too demanding, renovating, tenants late in paying rent, problems maintaining unit, looking for tenant, too much money taken by income tax, etc.*

**SOURCE :** Robert Murdie and David Northrup "Residential Conversions in Toronto : The Availability of Rental Units in Owner Occupied Dwellings in the City of Toronto and Owners' Experience in the Rental Market." Institute for Social Research, York University, March 1990.

The people most likely to convert or to purchase a converted dwelling in Ontario were found to be younger first time buyers who needed the income. Of those who currently had a unit they were renting out, 83 per cent purchased the property with a converted unit and 17 per cent added the unit after purchasing.<sup>28</sup>

For first time buyers and low income homeowners who need the income, the economics of an accessory unit is critical. The accessory unit does represent a sacrifice of space and it can be costly to build. (\$10,000 to \$40,000 depending on house type and location). However there are alternatives which could make a significant difference.

The simplest saving is to purchase a house with a unit already installed. Houses with units are not much more expensive than units without them, definitely less expensive than purchasing the house and converting it with all permits and professional help. This was what 83 per cent of the owners did.

The other way to make the unit more affordable to the new owner is to build the unit oneself. This is what most people who built a unit did. Considering that 60 per cent of the owners currently renting units had annual incomes of less than \$40,000 in 1989-1990 the savings of at least 30 per cent and more likely 50 per cent of the cost of renovation would be well worthwhile. If the owners and/or their friends and relatives had electrical or plumbing licenses they would be even further ahead. Sixty-eight per cent of the accessory units in the study were built this way, while another nine per cent were constructed partly by a contractor and partly by the owner.

The Scarborough Housing Intensification Study included an analysis of the investment value of an accessory unit. While it appears to be an excellent idea for those who have no mortgage, and a help to those with a mortgage, there are significant losses with an accessory unit in an absentee landlord investment property. The calculations were based on a \$60,000 family income and a \$25,000 construction cost. However, in 1985, only one in three Scarborough households had an income over \$60,000. For most people without the cash in hand to create an accessory unit, the do-it-yourself approach would appear to be the only one.

The calculations are shown in Figure 4 below.

### Disincentives and Deconversions

There are social risks inherent in providing rental accommodation in one's home. Trouble with tenants, noise, destruction of property, and non-payment of rent have been the experiences of some homeowner landlords and a disincentive to other potential providers of rental accommodation. Where "good tenants" cannot be found, maintenance is troublesome and regulations complex, the unit can simply be taken off the market, if the household can manage without that income.

It would seem that one solution to this problem is to rent to family, friends or people recommended by friends. In the previously mentioned Institute for Social Research study, 28 per cent of the tenants were family or friends while another 17 per cent were referred by family and friends. Similar results were found in Vancouver ( see page 35 ).

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<sup>28</sup> ibid.

**FIGURE 4**

CONVERSION ECONOMICS					
NO MORTGAGE		OWNER OCCUPIED MORTGAGE		INVESTOR MORTGAGE	
House Price: (mortgage paid off)	\$ 0	House price:	\$213,000	House price:	\$213,000
		Downpayment:	\$50,000	Downpayment:	\$50,000
Cost of putting in basement apartment:	\$25,000	Cost of putting in basement apartment:	\$25,000	Cost of putting in basement apartment:	\$25,000
Monthly rent:	\$ 640	Monthly rent:	\$640	Monthly rent:	
Net additional income:		Household Income (excluding rent):	\$60,000	Upstairs Apartment:	\$960
- 1st year	\$ 2,620	Mortgage payments as a percent of household income:		Basement Apartment:	\$640
- 5th year	\$ 3,850	- without basement apartment:	34%	Single House	\$1,230
- Over 10 years	\$40,940	- with basement apartment:	29%	Net Loss over 10 years:	
				- with basement apartment:	\$56,650
				- without basement apartment:	\$45,360
				i.e. "cost" of basement apartment:	\$11,290

**NOTES TO EXPLAIN THE EXAMPLES****1. \$213,000 house price:**

The median house price for Scarborough in November 1988. Half the houses sold cost more than \$213,000; the other half cost less.

**2. \$25,000 for a basement apartment:**

This seems like a lot, but it's a realistic price for a good quality apartment that meets the building code and fire code - and starts with an unfinished basement.

- A kitchen costs about \$6,000 - \$10,000, and a bathroom another \$6,000 - \$10,000.

- The \$25,000 includes the cost of a contractor's labour. A homeowner could save money by doing the work himself.

- A separate entrance from the outside, plus an outside stairwell would be \$8,000 - \$12,000 extra. Lowering the basement floor and underpinning the foundations could double the cost to \$50,000.

- The \$25,000 is paid off through a mortgage.

**3. Monthly Rent of \$640:**

\$640 was the average monthly rent for basement apartments in Scarborough in the Multiple Listing Services listings near the end of 1988. You might get more for the good quality apartment described above.

**4. Other assumptions:**

Interest Rate 12%

Amortization Period 25 years

Inflation Rate 5% per year

Annual Rent Increase 5% per year

Vacancy Allowance 5% of rent

Revenues: rent less vacancy allowance

Costs:

- insurance \$190 per year

- taxes \$560 per year

- operating costs \$830 per year

**5. Household income of \$60,000:**

This is about the lowest level where a household could pay less than 30% of household income on housing costs if it:

- bought a \$213,000 house with \$50,000 downpayment; and

- put in a \$25,000 basement apartment and rented it for \$640/month

In 1985, only one in three Scarborough households had an income over \$60,000.

**SOURCE :** City of Scarborough Planning Department, "Scarborough Housing Intensification Study, Fact Sheet No. 3." February, 1990.



While many of the buyers of homes with accessory units, as well as those adding these units, initially need the income, young owners are in an age group where income is rising. Assuming some type of economic stability, their family income should increase over the next decade. While their homes become more affordable, tenants stay just as troublesome. If their children need more space, they would be likely to deconvert and deconversions will also occur following transfer of ownership if the new owners do not require an accessory unit.

### **Rental Market**

Tenants, as well as owners, must be motivated in order for there to be a market for accessory units. An Ontario study noted a "very strong tenant market demand for self-contained accommodation in converted dwellings among young singles and young couples in the middle and upper-middle income brackets. "This demand is particularly strong among those with definite intentions to become homeowners."<sup>29</sup>

The accessory units studied were slightly more economical than average rent for equivalent accommodation in Toronto. The mean rent for one bedroom units in the Toronto study was \$506 at a time when the CMHC rental survey indicated \$585 as the average one bedroom rent.

### **Long Term Prospects**

With respect to the future of accessory units as a response to housing needs it would seem that specific pre-conditions would be necessary in order to expect an increasing number of units on the market:

A tight housing market with increasing prices and rents;

A large number of people in the first-time buyer and senior age groups with modest incomes;

Growing numbers of potential tenants;

A shortage of affordable already converted units on the market available for purchase with built-in income; and

Owners with building skills or access to skills in order to economically create a unit.

At the same time, it would be necessary to reduce the number of deconversions.

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<sup>29</sup> Klein & Sears et. al, "Study of Residential Intensification and Rental Housing Conservation", Part 1, March 1983.

### 3.4 THE LEGISLATIVE CONUNDRUM: EFFECTS OF LEGALIZATION ON UNIT NUMBERS AND QUALITY

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#### Zoning Regulations and Controls:

Zoning to control location of units: Almost all cities' zoning by-laws include sections limiting some residential areas to single family dwellings only, prohibiting accessory apartments as legal uses in those zones. The extent of these areas is a critical variable in the provision of legal units, the role of accessory units in the housing market and the level of controversy surrounding these units. The City of Toronto allows accessory units in all but R1 zones which constitute about 15 per cent of its residential areas ( Swansea, Forest Hill, and parts of Rosedale ). On the other hand, 70 per cent of residential lands in the City of Vancouver were zoned single family and did not, in general, allow suites until the plebiscites in certain areas in the last two years. Similarly, Scarborough, with vast areas of single family zoning, does not allow two kitchens in those areas.

Zoning regulations regarding parking: Not only the number, but the location, size and configuration of parking areas are included in municipal codes in relation to the number of units. These rules were developed in response to community concern that conversions would result in increased traffic and streets crowded with parked cars. One parking space per unit is a typical standard, except in Toronto, where the first additional unit does not require parking space. Studies have indicated that in many areas an additional space can be provided on the average lot.<sup>30</sup>

However, the issue becomes far more complicated when further criteria for approval are included in by-laws. Requiring all parking to be behind the setback line of a building does provide a tidier streetscape, but renders some otherwise compliant units illegal. In addition, regulations outlawing tandem parking ( i.e., not allowing one car to be parked behind another ), eliminate other units from potential legal status. In order to preserve its traditional streetscapes, Vancouver has required all parking access to be from laneways, not from the street.

Height, gross floor area, and setback regulations: Other development standards normally included in zoning by-laws, such as height, gross floor area and setback regulations affect the development of legal accessory units. Building height limits some attic renovations, and setback regulations would limit additions which might create a better accessory unit. However, given the visibility and potentially negative impact on the neighbours of building height and setback violations made without a permit, they are unlikely to apply to illegal units.

On the other hand, gross floor area ( G.F.A. ), by the way it is defined can include or exclude many units from potential legal status. In the City of Toronto, G.F.A. is generally limited to 60 per cent of the lot area and includes all habitable floor area - including habitable areas in the basement. The Committee of Adjustment routinely approved variances for the development of accessory units in basements when no other noticeable change was being made. When the building envelope does not change, common sense says the G.F.A. does not change. Regulations are being revised to reflect this reality and thereby encourage development of legal units. New regulations will calculate G.F.A. exclusive of basements.

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<sup>30</sup> Joseph Verdirame, "Residential Intensification in Scarborough", course paper, University of Toronto, April 1988.

In Burnaby B.C. accessory units are now allowed if they are more than 183 m. apart. This "separation distance" approach is intended to preserve "neighborhood character".

### **Building Regulations:**

The need for building regulations to ensure a minimum standard of health and safety for residents, including fire safety, exits, minimum room sizes, ceiling heights, light and ventilation is not disputed. However, in addition to requirements for renovation and rehabilitation and fire codes, municipalities have developed regulations for accessory units which either assist in the process of legalizing this form of housing or essentially prohibit it through excessive and expensive building standards. Some of the areas where standards vary include:

**Exits:** At least two means of egress are required in most jurisdictions, but one of them is usually allowed to be a window. One city contemplated requiring two full-height exits in basement units.

**Floor level:** Basement apartments are often limited or eliminated as a legal use by specifications regarding the relation of floor level to grade. Where secondary suites are allowed in Burnaby they must have no more than 30 per cent of floor level more than .5 m from grade. Other standards specified floor levels .5 m. from grade overall, or .7 m. from grade. These requirements would eliminate many units from legal status.

**Ceiling heights:** The standard ceiling height for new construction is 2.3 m. However, many rehabilitation and renovation codes allow lower ceilings. Requiring a full 2.3 m. ceiling in accessory units has the effect of making many units illegal, discouraging the development of legal units, or making legal units expensive as basements are excavated or roofs raised. Toronto has noted that 1.9 m. is the minimum height for a fire exit. They are proposing that be the minimum ceiling height as well. Though the resulting unit would be unattractive to tall people, one might assume the market would take care of this matter.

**Fire separation and protection:** Fire code requirements for accessory units have been the focus of much discussion in many municipalities. Some officials are concerned that fires in these apartments could be blamed on the city if the units were legalized. Others feel additional protection is needed where regular inspections are few. The resulting regulations, however, have been questioned. They are seen not as a means of protecting the residents but as a means of making units illegal without saying so. One of these is Vancouver's requirements for sprinkler systems. The \$10,000 price tag is seen as prohibitive for most homeowners.

Other jurisdictions have been more straightforward in their approach to limiting accessory apartments. Some municipalities allow accessory units only in older buildings. In Etobicoke, the dwelling to be converted must be at least five years old; in Thunder Bay, it must have been built prior to 1946. Other municipalities do not allow basement apartments.

### **Benefits of Illegality:**

While many municipalities have or are considering methods of legalizing accessory units, there are, as previously mentioned, certain recognized advantages to leaving the units illegal.

Most of these advantages derive from the fact that enforcement of the regulations regarding accessory apartments is generally undertaken only on complaint. These complaints have two main sources: neighbours disturbed by noise or lack of property maintenance; or tenants angry with their landlord or unhappy with their unit. The latter type of complaint is best made when the tenant decides to move. Tenants who complain to the municipality may be surprised to find themselves without a home when the city then orders the unit closed.

The neighbours of illegal accessory units have a great deal of control over the behaviour of their neighbours and their tenants. Property owners with illegal accessory units will make a special effort to rent to quiet tenants, control parking and maintain their property. This method is probably far more effective than any property standards ever devised. However, it is one that is open to abuse by vindictive neighbours.

For the homeowner building an accessory unit, costs can be significantly reduced by avoiding the red tape, permit fees, and code requirements of legal units. Many building characteristics required by codes, such as wall assembly for fire separation, are not "visible" by residents. Thus a homeowner could build an accessory unit that looked quite pleasant but did not comply with codes. With no official records of an illegal unit's creation, the income it generates is often not reported. Though there is a risk of a visit by a code enforcement official, that risk is minimal for the return expected.

For the homeowner who cannot afford a mortgage without additional rental income, the illegal route, being more cost effective, may be the preferred one. If construction is done by family and friends, labor may be available free or at reduced rates. License, permit and inspection fees can also be avoided.

Tenants may have slightly lower rent, partly because of the landlords' savings and perhaps as a result of an implicit agreement to have lower rent in exchange for discretion regarding the status of the unit.

When municipalities enforce regulations only upon complaint, a "free market" of supply and demand develops in the underground economy of illegal accessory units. One planner said that the supply of illegal units was the elastic part of the rental market in his municipality. Illegal units are estimated to constitute eight per cent of the total housing stock in that city.<sup>31</sup>

### **Benefits of Legalization**

On the other hand, if units are developed legally and zoning and building standards are enforced, society benefits in several respects.

The most obvious benefit is that units built with permits and inspections are likely to be safer due to better fire separation, and adherence to electrical codes, as well as better insulated. In some cases a difference would be noticed in window area, plumbing quality, room sizes and ease of access.

When legally permitted, the municipality is aware of the units, improving planning information, housing statistics, assessment data and other record keeping activities, as well as keeping an eye on possible fire, safety or health code violations.

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<sup>31</sup> Telephone conversation with Peter Moore, Planner, City of Scarborough, October 24, 1990.

Although the municipalities which have informally considered the potential for tax revenue enhancement from legalizing units have not found much cause for predicting a noticeable increase in tax revenues, property values are not negatively affected, and some additional monies can be generated from permit fees and other charges.

For the owners of accessory units, the neighbours can no longer threaten them with "reporting" their illegal unit over any and all real or perceived problems. Neighbors have the assurance that new units and their appropriate parking spaces comply with building codes and planning regulations and they still have recourse to filing complaints regarding all other types of violations, noise by-laws, parking infractions, property maintenance and occupancy standards.

For tenants, legal status of their apartments offers them full rights and protection as tenants under existing landlord/tenant legislation.

### Effects of the Legalization Process

After considering the demand for rental housing and the high numbers of illegal units in their jurisdictions, municipalities have taken various approaches to legalizing accessory units.

Many elected representatives and senior planning officials may have regretted even mentioning legalization. The Vancouver story is well documented.<sup>32</sup> In suburban Toronto, the issue became extremely controversial when posed in some municipalities; others are being extremely careful in studying the question. Opinion was perceived to be fairly evenly divided between those who were strongly against, those in favour and those who did not care. This is not a situation easily handled by even the most deft of politicians hoping for re-election.

One approach seems to be to legalize the units, subject to compliance with codes and standards. The standards are then set in such a way that many units remain illegal. Vancouver's sprinkler law comes to mind. Etobicoke's recent Housing Statement Background Report recommended amending the zoning by-law to allow accessory units if and when Ontario's Planning Act was amended to allow units to be limited to owner/occupants and to allow right of entry and inspection for zoning violations.<sup>33</sup>

To encourage the creation of legal units that conform to code, the City of Toronto, where secondary units are legal, offers assistance with red tape and approvals including applications for a provincial loan, under its Home Planning Advisory Service Program.

The higher standards, permit fees, complex approval processes, inspections and more costly construction associated with legalization can easily increase the cost of conversion. Despite programs such as the Home Planning Advisory Service, legalization requirements also make the process less accessible to ethnic and income groups unaccustomed to complex government processes. Higher standards and costs may also raise rents and result in fewer affordable units. It is expected that the long term effect of enforcement of legalization will be a reduction in accessory units.

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<sup>32</sup> The most comprehensive account of Vancouver's experience to date is contained in Stanbury and Todd *op. cit.*

<sup>33</sup> Richard Drdla Associates, *op. cit.*

Some of the units closed through enforcement will be hazardous and unhealthy. But reducing the stock of units which do little more than violate a minor aspect of parking regulations ( e.g., tandem parking ) does little to improve the quality of housing and much to lower the stock of rental units.

However, given the extent of illegal units in markets with a high demand for rental housing, it would appear that no matter what regulations and processes are put in place, illegal units will never be fully eliminated.

### **3.5 MUNICIPAL PRESSURE POINTS**

Municipal governments feel pressured by the issue of accessory units from two directions: constituents, both those with concerns about changes or conditions in their neighbourhood, and those wanting to develop or retain accessory units; and from their own staff concerned with enforcement, infrastructure, maintenance, revenue and legal liabilities.

#### **Resident Concerns**

Studies indicate that owners of traditional single family residences have certain concerns about accessory units. These include social character and class of new tenants, traffic and parking, and property values.<sup>34</sup> Many of the letters quoted in Vancouver background papers and in the City of York's recent Official Plan review referred emotionally to preserving the "family character" of the neighborhood. To many people this means predictable residents with shared interests in local property values, low residential density, familiar faces and familiar cars. Any change is considered a threat to a lifetime investment.

However, research has shown that most tenants in accessory units have values very similar to those of the owner populations and are motivated to rent in an accessory unit in order to enjoy the quiet "family character" of the neighborhood.<sup>35</sup>

There are some who claim accessory units will overcrowd services. However, a Scarborough study noted that the areas most likely to experience conversion were the areas which had lost population over the last twenty years. As shown in Table 3, reproduced from the study, the likely number of conversions would scarcely begin to bring the population back to its 1971 level.

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<sup>34</sup> Hulchanski, *op. cit.*

<sup>35</sup> Lewinberg Consultants, *op. cit.*

**TABLE 3**  
**DECLINING POPULATION:**  
**THE POTENTIAL IMPACT OF BASEMENT APARTMENTS**

Neighborhood	Population in 1971	Population in 1986	Decline 1971-86	Population Added If 10% of Houses Add A New Unit*
Wexford	5,845	4,505	1,340	290
Central Scarborough	5,290	4,290	1,000	220
Guildwood	6,165	4,815	1,350	260
<p>*Assumes 2 people living in each new unit</p> <p>Each of these neighborhoods already has basement apartments, though we don't know how many. Even if another 10 per cent of the houses were to have basement apartments put in, the people who came to live in them would only replace about one-fifth of those who had left in the previous 20 years ( this assumes an average of two people living in each unit ).</p>				
<p>Source: City of Scarborough Planning Department, "Scarborough Housing Intensification Study", Fact Sheet No. 5, February 1990.</p>				

Parking is a concern not only for residents but for Public Works Departments which must plough streets where cars are parked overnight, Police Departments which must issue tickets, and Building Departments, which then receive complaints about illegal units. Despite this, there is little information available regarding the actual parking impact of accessory units. One study conducted in municipalities where conversions are permitted, concluded that this issue may not be as severe a problem as people often perceive it to be, and later noted that intensification did not significantly contribute to a parking problem.<sup>36</sup> Numbers of vehicles per converted dwelling unit, compared to incidence of vehicles in non-converted dwellings, is shown in Table 4. For accessory units with two or fewer bedrooms, vehicle ownership averaged less than one car per unit.

<sup>36</sup> Berridge Lewinberg Greenberg et. al., "Maturing Neighborhoods" ( Interim Report ). City of Scarborough, May 1989.

**TABLE 4**  
**VEHICLES BY UNIT TYPE**  
**METROPOLITAN TORONTO, 1985**

Unit Type	Average No. of Vehicles/ Converted Unit	Average No. of Vehicles/Non-Converted Unit	Average No. of Vehicles/Unit Overall
Room	.18	-	.18
Bachelorette	.21	-	.21
Bachelor	.26	-	.26
1 Bedroom	.67	1.33	.69
2 Bedroom	.97	1.00	.98
3 Bedroom	1.46	1.33	1.37
4 Bedroom	1.46	1.36	1.38
4+ Bedroom	.80	1.53	1.47
Source: Marshall Macklin Monaghan Limited, "Parking and Accessory Apartments: A Metro Toronto Case Study", Ontario Ministry of Housing and Ontario Ministry of Municipal Affairs, Toronto, June 1987.			

Ontario planning officials consistently reported that people's fears would be greatly eased if accessory apartments were limited to houses which were owner occupied. It is felt, with some justification, that an owner occupant will be more selective about tenants and more conscientious about maintenance. However, both the Planning Act and human rights legislation prohibit zoning on the basis of the occupants - "people zoning".

Respondents further noted that complaints are often made about accessory apartments as a use when, in fact, the problem is a violation of other regulations - not the zoning prohibition against accessory units. Noise, litter, overcrowding, poor maintenance, unused automobiles, uncontrolled pets and other nuisances which typically are the sources of complaints are just as readily found in association with single family homes. When found with accessory apartments, the apartment is blamed for the problem.



### Government Concerns:

City governments must administer zoning and code regulations when responding to complaints about violations. In Toronto, where accessory units, as a use, are legal in 85 per cent of the municipality, there were 618 complaints about illegal basement apartments over a two and one-half year period.<sup>37</sup> In Scarborough, where all accessory units are illegal, there are 500 complaints annually regarding multiple occupancies.<sup>38</sup>

If units are to be legalized, it is usually on the condition that the property comply with codes. Thus the process of legalization will initially require additional staff for inspections and enforcement. The neighborhood-by-neighborhood approach for both planning changes and enforcement, allowing lengthy periods for compliance, can ease the impact on city staff.

Municipalities may also be concerned about the impact of further population on existing infrastructure. On an area-wide basis, a system designed to handle the households of earlier periods should have excess capacity in these days of declining household size. However, in the case of sewers, the issue is often a street by street, block by block problem in some older neighborhoods, especially those still using combined systems with heavy infiltration. In newer areas with dwellings built in the 1960s for household populations of four or more, few problems would be expected from the occasional accessory apartment. Use of infrastructure relates to the issue of maintaining, maximizing the use of, and paying for municipal services. Although sewer capacity may inhibit intensification in specific small areas, most recent studies have supported intensification of existing urban residential land.

While accessory units are one means of achieving intensification, they do not usually produce additional municipal tax revenue. Increased dwelling value accruing from an accessory apartment is not sufficient to increase property taxes. In addition, the accessory unit reduces storage space and eliminates recreation rooms or similar spaces which positively affect appraised value.

Thus accessory units, per se, cannot be promoted as a means of enhancing municipal tax revenues. Any financial benefit comes from being able to house significant numbers of people without further infrastructure expenditure.

Provincial legislation in B.C. allows municipalities to charge homeowners for accessory unit permits, and the City of Vancouver does obtain additional revenues through permit fees for family units, renewable every two years and has discussed fees for other types of secondary suites. Mission charges a fee for a legal zoning designation for all accessory units. In Ontario, the Planning Act does not include procedures for licensing or temporarily permitting a use and charging a fee for it.

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<sup>37</sup> Telephone conversation with David Spence, Housing Planner, City of Toronto, October 31, 1990.

<sup>38</sup> Telephone conversation with Peter Moore, Planner, City of Scarborough, October 24, 1990.

## **4.0 OPPORTUNITIES**

### **4.1 FUTURE CONVERSION POTENTIAL**

The potential number of units which can be created by conversion of existing dwellings depends on several interrelated factors: the size and configuration of the house and lot, ability to accommodate parking, market demand, owners' needs and preferences, and government regulations and incentives.

Different methods have been used for assessing the potential. These are discussed below.

#### **Physical assessment:**

In Thunder Bay, lot and dwelling size in selected neighborhoods was reviewed. From this information, proposals were made to allow conversion of the upper floors of houses built prior to 1946 on lots greater than a minimum size. The study used both planning department and assessment data.<sup>39</sup>

The Klein and Sears study for the Ontario Ministry of Municipal Affairs estimated that one half of the single family dwellings in urban Ontario had sufficient excess space to accommodate at least one additional person or household, with excess space defined as a minimum of at least 46.5 sq.m. per person of gross floor area within the dwelling.<sup>40</sup>

The York Housing Strategy noted that the Metropolitan Toronto Planning Department, in its study of Housing Intensification in 1987 estimated that over 5,400 grade-related owner occupied dwelling units in York had the potential for additional units. This was based on "excess space" as defined by having more than gross floor average area per person. York planners questioned this method as not taking into account the owners' likelihood to want to build an accessory unit.<sup>41</sup>

Etobicoke analyzed typical house types, along with building areas, lot areas and typical interior configurations. From this they estimated that between 18,360 and 22,620 additional units would be physically possible in the municipality.<sup>42</sup>

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<sup>39</sup> City of Thunder Bay, Community Planning & Development Division, "Residential Conversion Policy Study", June 1981.

<sup>40</sup> op. cit.

<sup>41</sup> Warren Sorensen Associates et.al., op. cit.

<sup>42</sup> Richard Drdla Associates, op. cit.

**Level of Activity:**

A U.S. study estimated that up to 130,000 units per year, equal to about half the annual production of new private unsubsidized rental apartments, were built in the U.S. between 1980 and 1983.<sup>43</sup> It then hypothesized that, given certain conditions, such a volume of production of accessory units could continue.

**Owners' Propensity to Convert:**

Another measure of potential is owners' interest in converting. Surveys have found limited interest in conversion. The Klein and Sears study found 12 per cent of the homeowners would consider renting part of their home, but the preference of over half of these was for renting a room.

Of those who are interested in converting, the preference was to build a basement unit. Unfortunately, tenants prefer the upper floors.

Further disparity exists between tenants' preferences for an absentee landlord and the desire of residents of single family neighborhoods to maintain owner-occupancy of any converted dwellings.

**Comprehensive Approach:**

A study by the City of Vancouver in 1975 combined survey results and building configuration data to analyze not only interest in, but also the feasibility of adding a unit in the house.

They also examined how the potential for conversion changed under a variety of regulatory scenarios, as shown below in Table 5:

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<sup>43</sup> Martin Gellen, op. cit.

**TABLE 5**  
**EFFECT OF MINIMUM STANDARDS ON NUMBER OF SUITES CREATED**

At Grade Only	Basement Height Standard				
	Over 8' 308-477	7'6" Or Over 346-537	7' Or Over 346-537	6' Or Over 346-537	No Minimum 346-537
up to 1'	539- 835	577- 895	692-1074	730-1133	730-1133
up to 2'	847-1312	1000-1550	1153-1789	1230-1909	1230-1909
up to 2'6"	962-1491	1153-1790	1344-2089	1460-2268	1460-2268
up to 3'	1385-2147	1691-2625	1920-2984	2072-3220	2077-3220
up to 4'	2078-3220	2461-3817	2767-4295	2996-4654	3039-4709
no limit	3040-4710	3617-5604	4040-6260	4271-6617	4309-6675
Source: City of Vancouver, "Housing Conversion", March 1975.					

Although estimates of the potential for conversion have shown that a fairly significant number of units could ultimately be developed, most sources agree that accessory units will not:

solve the problem of massive shortage of affordable housing ( accessory units have lower than average market rents, are not affordable for the lowest income groups );

provide a large number of units within a short time ( development depends on individual decisions made under widely varying circumstances );

be developed in large numbers by seniors needing income and/or assistance or be occupied by seniors ( many seniors do not want to sacrifice space and have "strangers" in their homes; most units are added by young people needing the income to pay the mortgage ); or

add to the permanent housing stock in the very long term ( units are added, occupied, then removed as needs change ).

There is also concern that some local areas may now be "saturated", with little remaining potential in the existing stock of single family housing.

## **4.2 AFFORDABLE RENTAL HOUSING**

As discussed earlier in this report, accessory units are most common in situations where the housing market is otherwise unable to provide sufficient affordable rental accommodation. In trying to assess the possible future contributions of accessory units to the supply of affordable rental housing, it is necessary to first consider the likely future production capability of the traditional rental market, and then look at factors which may independently affect the affordability of accessory units.

### **The Traditional Rental Market**

If one subscribes to the theory of "demographic determinism", it is assumed that the baby-bust generation will negatively affect the demand for rental housing, starting almost immediately. The oldest baby-busters, fewer in number than their boomer predecessors were at this stage of the life cycle, are now in their early twenties, traditionally a time of first household formation and demand for rental accommodation. Nationally, the net result of this smaller cohort's decreased propensity to household formation will be less demand for all forms of rental accommodation, and reduced production requirements.

However, in major markets where high levels of in-migration continue to fuel demand not directly related to household formation, and there are regulatory conditions restricting rental housing supply ( e.g., rent controls, permitted conversion of rental housing to condominium tenure, exclusionary zoning ), it is unlikely that the traditional rental market will be able to adequately meet housing needs. And, with high interest rates, production of rental housing without subsidy assistance will continue to be unattractive to most developers. It appears that in certain locations, such as the demand driven markets of Toronto and Vancouver, shortfalls in traditional rental accommodation will encourage ongoing creation of accessory apartment units. The less expensive units may be particularly attractive to refugees and other immigrants who come to Canada with limited financial resources and are not immediately eligible for subsidized housing.

### **Rental Rate Levels: Locational Determinants**

However, the affordability of accessory units will be directly related to real estate values in the neighborhoods in which the units are found. Although accessory units may be the most affordable form of unsubsidized rental accommodation in a given area, in tight markets, quality units in attractive central locations will normally rent at rates that are prohibitive for those seeking low cost alternatives to traditional rental accommodation. In fact, as the vast majority of accessory units ( save the few legal units subject to rent controls ) rent at rates that are totally determined by market forces, their accessibility to households who would qualify for subsidized accommodation is severely limited.

A recent study of housing needs in the District of North Vancouver compared average reported accessory unit rents by size of unit with rents for units in apartment buildings of six units or more as reported by the C.M.H.C. Rental Survey. Rents for accessory units averaged over \$100 less than rents for comparable units in multi-family apartment buildings. The results are shown in Table 6.

**TABLE 6**  
**AVERAGE RENT BY SIZE OF SUITE**  
**ACCESSORY VS. TRADITIONAL APARTMENT UNITS**  
**DISTRICT OF NORTH VANCOUVER, 1989**

ACCESSORY UNITS		TRADITIONAL UNITS	
No. of Rooms	Average Monthly Rent	Size	Average Monthly Rate
One	\$377	bachelor	\$471
Two	\$424		
Three	\$436	1 bedroom	\$555
Four	\$530	2 bedroom	\$673
Five+	\$571	3 bedroom	\$722
Source: Adapted from Bruce Levens and Michael Goldberg, "Housing Needs in the District of North Vancouver", Social Planning & Research Council of British Columbia, October 1989.			

#### **Rental Rate Levels: Grade Related Determinants**

Another factor affecting rental rates for accessory units is their location within a dwelling. A relatively recent Ontario study found that above grade units are considered more desirable by prospective tenants,<sup>44</sup> and therefore command a rental premium. This is an unfortunate situation for prospective landlords, who prefer to create accessory units below grade,<sup>45</sup> despite the fact that it is often more expensive to do so. However, the preference for creating below grade units may be due in part to the predominance of bungalows as a house form in the areas where the study was conducted.

#### **Rental Rate Levels: Landlord - Tenant Relationship Determinants**

The differential in rental rates between roughly comparable accessory and traditional apartment units may be due in part to landlord-tenant relationships. As shown in Table 7, the District of North Vancouver study found that a family or friendship tie existed in almost half of landlord-tenant relationships reported.

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<sup>44</sup> Klein and Sears *et. al.*, "Study of Residential Intensification and Rental Housing Conservation", Part 1, Detailed Summary of Findings and Recommendations. Prepared for the Ontario Ministry of Municipal Affairs and Housing, and the Association of Municipalities of Ontario, March 1983.

<sup>45</sup> *Ibid.*

**TABLE 7**  
**RELATIONSHIP OF TENANT TO OWNER**  
**ACCESSORY APARTMENT UNITS**  
**DISTRICT OF NORTH VANCOUVER**  
**1989**

Relationship	No.	%
relatives ( blood or marriage )	35	15
friendship ( in existence before tenancy )	27	12
friendship ( formed during tenancy )	52	22
landlord-tenant relationship	126	52
Total	241	100
Source: Adapted from Bruce Levens and Michael Goldberg, "Housing Needs in the District of North Vancouver", Social Planning & Research Council of British Columbia, October 1989.		

### Effects of Legalization on Existing Units

As mentioned previously, perhaps the greatest challenge to the continued contribution of accessory units to the supply of affordable rental housing is ongoing legalization. In municipalities where zoning has been relaxed to allow accessory units contingent upon their conformance to local building codes, the costs of the requisite upgrades to existing units can easily exceed \$40,000 in instances where basement excavation is required. Installation of overhead sprinklers can approach \$10,000 in an older dwelling. Although not of the same magnitude as the costs of materials and labor, permit fees add to the bill.

Landlords with significant code violations and limited financial resources are faced with two unattractive alternatives: shutting down their unit and losing all rental income; or continuing to operate without upgrading until actually forced to shut down by the municipality. In either case, the supply of affordable rental housing is ultimately reduced.

### Effects of Legalization on New Units

The costs of code compliance have similarly negative effects on the creation of new accessory units. In municipalities where the policy was most recently one of tolerance in the absence of neighborhood complaints, new units were created at standards which, at minimum, usually approximated neighborhood norms. With legal status contingent upon code compliance, and payment of permit fees, costs of production for owners wishing not to violate municipal by-laws have significantly increased. The production process has also been complicated by a round of heretofore unessential applications and inspections.

For owners wishing to operate within the by-law, creating a new unit may simply appear to be more expensive and troublesome than it is worth, and they may revise their own housing priorities accordingly. Or, if they do proceed to create a unit, it will likely rent at higher rates, and be less "affordable", than one created in a climate of tolerance. For owners who do not intend to respect the by-law, legalization costs are irrelevant to the creation of new units until such time as municipal enforcement may occur. The choice then becomes one of upgrading to code or shutting down the unit. Again, with either alternative, the stock of affordable rental housing is ultimately reduced.

#### **4.3 AFFORDABLE OWNERSHIP HOUSING**

Accessory units' future contribution to the supply of affordable ownership housing will be contingent upon the degree to which existing units are retained, and the potential for the creation of new units in existing dwellings. If the costs and frustrations of creating and maintaining secondary suites exceed the perceived benefits to be gained from tenant occupancy and expected rental income, the dwelling in which the suite is or is to be located may no longer be affordable, or desired, by the existing or prospective owner. Factors affecting affordability are discussed below.

##### **Target Demographics**

Historically, the two groups most likely to require supplementary rental income to meet the costs associated with homeownership have been first time buyers and the elderly. However, "demographic determinism" is expected to place the baby bust generation in a very favourable position vis a vis the stock of starter housing created for the boomers. As the baby bust cohort starts to move into their thirties in the middle of the 90s, boomers will be looking for move-up housing and the starter market should be heavily weighted toward prospective buyers. On a national basis, affordability for first-time purchasers should be less of a problem, and the aggregate need for supplementary income to meet the costs of ownership should be reduced. However, house prices in demand driven markets such as Toronto and Vancouver may still remain well above national averages, making affordability more problematic for first-time buyers there.

For seniors, the need to create accessory units to obtain supplementary income should also decrease in aggregate as post-war pension plans take effect and greater numbers of females obtain financial benefit from participation in the work-force. As the issue for seniors is normally dwelling maintenance expenses, rather than acquisition costs ( most senior homeowners are mortgage-free ), there should be less of a differential in need for supplementary income between demand driven markets and those in other locations in Canada.



### Costs of Rental Income

In considering the economics of conversion, it is obviously necessary to weigh projected rental income against all costs associated with creating an accessory unit. These include not only all labor, materials, permit and borrowing costs which will be incurred, but also the possible effects of any assessed increases in dwelling value on property taxes, the income tax to be imposed on the supplementary rental income, and tax implications at the time of disposition of the dwelling. A study undertaken for the Alberta Department of Housing found that in order for a new accessory unit with a net rentable area of 56 sq. m. created with \$25,000 of borrowed funds to generate a positive cash flow from day one, effective interest rates would have to be under 10 per cent, with an amortization period of ten years.<sup>46</sup>

### Effects of Legalization

Because legalization will increase the cost of producing and upgrading units to fully conform to code, thereby reducing net rental revenues, it will have negative effects on ultimate dwelling affordability in situations where existing or prospective owners respect local by-laws. The effects will normally be strongest in older neighborhoods, where code violations in the existing stock are likely to be more numerous and severe. For an owner who intends to create or maintain an illegal unit, legalization will obviously have no effects on the ultimate affordability of the dwelling unless or until by-law enforcement occurs and the choice becomes one of incurring the costs of conforming to code or shutting down the unit and losing the rental income.

### Closure

In instances where a municipality may decide to close certain types of suites in some or all neighborhoods, affordability may become a major problem for existing homeowners who had previously relied on the rental revenue to supplement their income. In the District of North Vancouver, thirty per cent of homeowners reported that they would be forced to sell their home if their suite were closed.<sup>47</sup>

## 4.4 Sustainable Urban Development

While the potential for accessory units to increase the supply of affordable accommodation is by no means uniformly assured, production of these units in many ways complements the concept of sustainable urban development, which is a matter of increasing concern to environmentalists world-wide, and a federal housing priority. The ways in which accessory units may and may not reduce the unfavorable impact of continued urban growth are highlighted below.

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<sup>46</sup> McKellar Architects, "Conversion of Existing Housing for Multiple Occupancy Rental Purposes", Vol. 2, Executive Summary, prepared for the Planning and Research Branch, Alberta Department of Housing, Edmonton, February, 1984.

<sup>47</sup> Bruce Levens and Michael Goldberg, "Housing Needs in the District of North Vancouver", Social Planning & Research Council of British Columbia, October, 1989.

### More Efficient Use of the Existing Housing Stock

The mismatch between dwelling size and household size that is a necessary precondition for the creation of an accessory unit provides an opportunity to use excess existing space, rather than construct a new dwelling, to accommodate an additional household within a given municipality. There are capital savings to be had with respect to land and building materials, and reduced operating expenses in the form of lower home heating and maintenance costs.

To the extent that accessory units are able to utilize existing shelter components at negligible additional cost, their drain on non-renewable resources is less than that associated with totally new construction.

Yet, because of lack of economies of scale in the creation of accessory units, when land costs are not considered, overall construction costs per unit can be higher than for equivalent size multi-family apartment accommodation. A recent San Francisco study found that costs for accessory units were in fact comparable to land and building costs for multi-family apartments.<sup>48</sup>

### More Efficient Use of Existing Infrastructure

In neighborhoods where the number of occupants in existing dwellings are now generally fewer than the number which the dwellings were originally designed to accommodate, there may be excess capacity in the existing municipal infrastructure. This is likely in post-war suburban neighborhoods. Demographically, many of these neighborhoods are mature suburbs; baby boomers who grew up in subdivisions there have left home to establish their own households and their parents have become "empty-nesters" who may or may not have reached retirement age. For example, in the City of Scarborough, one-third of homeowners are now fifty-five or older.<sup>49</sup>

With shrinking household size, hard services in these neighborhoods may now be under-utilized. Creating additional units in existing dwellings may be a way to again make fuller use of existing capacity, and minimize the new trunk and feeder lines that must be built. However, the existence of excess capacity should not be presumed. As pointed out by an official in the District of North Vancouver, per capita water consumption has increased dramatically over the post-war period. Total water consumption and ensuing sewage treatment requirements resulting from two two person households in a given dwelling now may be considerably greater than those of one six person household twenty-five years ago.<sup>50</sup>

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<sup>48</sup> San Francisco Development Fund, "Small Solutions: Second Units as Affordable Housing", The Evaluation of the Double Unit Opportunity Program of the San Francisco Development Fund, September 1988.

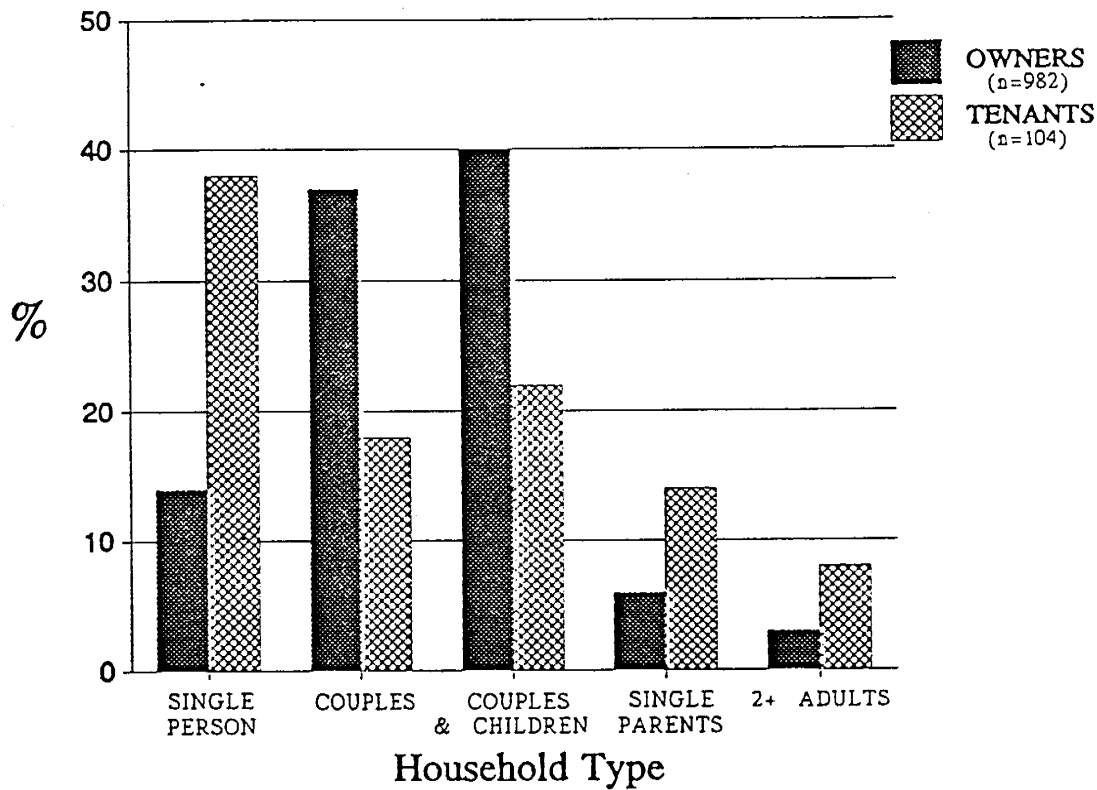
<sup>49</sup> Berridge, Lewinberg, Greenberg et. al., "Scarborough: Maturing Neighborhoods" (Interim Report). City of Scarborough, May 1989.

<sup>50</sup> Telephone conversation with Robert Brennan, Research Analyst, District of North Vancouver, October 31, 1990.

The situation with respect to soft services may also be problematic. In neighborhoods where schools are closing for lack of students, creation of accessory units is unlikely to result in significant increases in enrolments over the short to medium term. Most tenant households do not have school age children, nor do most first time buyers creating an additional unit. However, with other soft services not directed specifically at children, ( e.g., libraries, community centres ), increased neighborhood population should result in greater use. Household composition of owners and tenants of accessory units in the City of North Vancouver is show in Figure 5 below.

**FIGURE 5**

PERCENTAGE OF OWNERS AND TENANTS BY HOUSEHOLD COMPOSITION



SOURCE : Michael Goldberg and Bruce Levens, "Secondary Suites in the City of North Vancouver." Social Planning and Research Council of B.C., September 1990.

### Energy Conservation

Accessory units offer opportunities to conserve energy, both at the individual dwelling level and on a wider neighborhood / municipal basis. Within a given dwelling, the incremental costs of heating an accessory unit are likely to be far less than those that would be incurred in other forms of self-contained accommodation. Accessory units as a means of residential intensification and alternative to urban sprawl can also help reduce commuting distances, and encourage residential densities sufficient to support public transportation, reducing aggregate fuel requirements.

### Made to Convert Housing

To the extent that ease of conversion encourages production of accessory units and thereby reduces the number of new dwellings that must be built, single family housing designed expressly to readily accommodate a future accessory unit could be an important element in any strategy for sustainable urban development.

### Municipal Resistance to Increased Density

The positive arguments notwithstanding, not all municipal councils see more intensive use of the existing and future housing stock as an immediate priority. In situations where existing infrastructure is operating at or near capacity and is nearing the end of its useful life, and additional pressures are expected from localized growth, there may be well warranted concern about capability to provide adequate services for one household per single family dwelling unit, let alone more.<sup>51</sup> Hence the idea of creating additional accessory units in either new or existing dwellings may not be welcome.

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<sup>51</sup> Telephone conversation with Robert Ross, Deputy Director of Planning, Mission, B.C., October 16, 1990.

## **5.0 THE FEDERAL ROLE**

Consideration of possible federal initiatives to support the production of accessory apartment units will, of necessity, occur in the context of the Canadian regulatory hierarchy, and the division of powers and responsibilities among federal, provincial, and municipal levels of government.

Apart from market forces, the strongest influences on the quality, characteristics, and distribution of accessory units are planning controls ( principally zoning regulations ) and building code specifications, to the degree that they are enforced. These influences are almost entirely outside federal jurisdiction. Enforcement of zoning and code compliance are municipal responsibilities, as delegated by provincial authority. The exception is the necessity for all planning or building controls to be consistent with the broad framework of The Constitution Act and in particular the Canadian Charter of Rights and Freedoms. The Charter could provide protection from controls which are discriminatory in nature. If the federal government considered particular zoning bylaws unfairly discriminatory, a Charter challenge could be mounted.

Traditionally, the federal government's most effective vehicle to influence housing production has been program support. However, in the present climate of spending restraint, program dollars are increasingly targeted to creation and maintenance of units for households in greatest economic need. The degree of overlap between this group and present and would-be accessory apartment tenants and landlords is slight. Recognizing that the majority of tenants in accessory units would not qualify for housing subsidy assistance, Canada Mortgage and Housing Corporation in fact cancelled the rental portion of its Residential Rehabilitation Assistance Program, which previously had been available to upgrade accessory units, at the end of 1989. While renewed subsidy assistance could help reduce the financial burdens of existing and prospective suite owners faced with major code compliance costs, this may not be possible given the current mandate of the Corporation.

The one current federal program which may have marginal direct effect on the creation and maintenance of accessory units is Insured Lending. Insured mortgages are routinely available to help finance the acquisition of a dwelling containing a legal accessory unit. Technically, CMHC insurance is not available on mortgages obtained to acquire a dwelling where an accessory unit is known to exist in contravention of municipal zoning, but if an approved lender has agreed to provide the loan, the Corporation will normally abide by his decision.

Obviously, a homeowner or purchaser intending to create an illegal unit would not want to go on record by applying for an insured mortgage loan. In situations where the intent is to create a unit in conformance with zoning by-laws, there are no prohibitions against an insured first or second mortgage. However, the more common route to the creation of a second unit is normally a line of credit or personal loan.<sup>52</sup>

The remaining ways in which the Corporation can encourage the creation of accessory units are more indirect. These include ( further ) dissemination of supporting information, ( further ) encouragement of regulatory reform, and demonstration housing.

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<sup>52</sup> Telephone conversation with Steve Chapman, Underwriting Division, Canada Mortgage and Housing Corporation, October 25, 1990.

With respect to the dissemination of supporting information, as part of its ongoing commitment to housing research, CMHC has commissioned or supported the production of numerous reports and theses on topics related to accessory apartment units. It also routinely collects and publishes data on residential construction and housing market outlooks across the country. Continuing to maintain a state-of-the art repository for this material and making individual sources and more generalized summaries of findings available to interested parties is a way to promote more informed consideration of the role that accessory units may play in the provision of affordable housing. More specifically, the Corporation may wish to produce an Advisory Document on accessory apartments.

Concerning regulatory reform, one of the factors contributing to high housing costs is the length and complexity of development approval processes. This applies both to the construction of new dwellings and changes made to existing structures, in instances where building permits are actually sought. The Corporation is presently sponsoring the "Affordability and Choice Today" ( A.C.T. ) program being carried out by the Federation of Canadian Municipalities, The Canadian Home Builders' Association and the Canadian Housing and Renewal Association. The program has been designed to stimulate regulatory reform action in residential construction. Its objectives are to promote housing choice, affordability, quality and innovation. Activities relevant to the creation of accessory units include its suggestion that municipalities establish development information and application centres to provide builders and renovators with "one stop shopping" for the information, applications and permits required for construction.

Finally, regarding demonstration housing, CHARLIE<sup>53</sup>, a two storey 186 sq. m. made-to-convert dwelling designed to be constructed as an energy efficient R2000 home, is a demonstration house developed by the Hamilton and District Homebuilders' Association.

Another possible initiative might be the development of model codes that would be less restrictive than those currently applicable, but adequately protect against health and safety hazards, ( and indemnify municipalities in case of fire or other accidents ).

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<sup>53</sup> CHARLIE is an acronym for Canadian Housing Alternative Regulatory Reform Lifestyle Innovative Excellence.

## **6.0 CONCLUSION**

The evidence gathered during the forgoing review leaves little doubt that accessory units are and will continue to be a major component of the stock of affordable rental housing in demand driven markets. Although they are not cheap to create, they have proved to be a highly effective way of producing rental units, using private initiative and private financing, when the traditional rental market is incapable of meeting housing demand.

Municipalities with high demand for accessory units face a dual challenge: to insure that minimum health and safety standards are enforced in existing units; and to maximize the number of new units created in accordance with local regulatory requirements. To do this, it is necessary to streamline the local approval process and minimize compliance costs. Otherwise, few new legal units will be created, and significant numbers of existing illegal units may be lost if owners are required to upgrade to local codes.

While code conformance in new accessory units may be encouraged through programs which provide both financial subsidies and assistance in coping with the procedural requirements of legal construction, these programs should not be seen as a potential "quick fix" for the rental housing crisis, or as a means to make significant inroads into any "affordability gap" in the ownership market. Unless homeowners have a strong personal need to create an accessory unit, they simply will not go through what remains a time consuming and costly development process, undertaken at considerable personal inconvenience.

However, the production of more affordable ownership accommodation which has direct spin-offs for the rental market could be encouraged through continuing promotion of flexible, made-to-convert housing such as CHARLIE, which minimizes the cost and inconvenience of adding a second unit that conforms with code.

Outside high demand markets, baby bust demographics suggest that there will soon be significant reductions in requirements for both rental and ownership housing, making availability and affordability in both sectors less problematic than they are today. Although health and safety concerns related to code violations in existing accessory units may continue to be an issue for municipal building departments, national demographic trends point to a likely decrease in aggregate numbers of accessory units in the majority of Canadian municipalities, given the high degree of elasticity of this particular form of rental accommodation.

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