

THE ROLE OF GOVERNMENT POLICY
IN FACILITATING CONDOMINIUM OWNERSHIP
BY LOW INCOME HOUSEHOLDS: A CASE STUDY OF WINNIPEG

A Thesis

Submitted to the Faculty of Graduate Studies
in Partial Fulfillment of the Requirements for the Degree of
Master of City Planning

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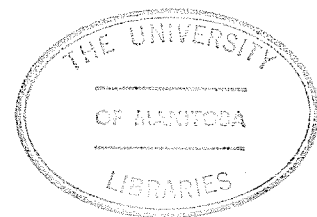


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ABSTRACT

Using Winnipeg as a case study, this thesis examined the extent to which condominiums currently provide housing for lower income consumers in the Winnipeg market, and investigated the viability of this form of residential development in a policy of encouraging homeownership for greater numbers of low income Canadians.

The primary objectives of the investigation were: (1) to identify the forces affecting the rate and costs of condominium development and ownership; (2) to determine the income sectors currently provided for by condominiums in the market; and (3) to propose a development policy framework which primarily aims to encourage and promote the utilization of the condominium as a vehicle to homeownership by lower income consumers.

In general, the study revealed the divergence between condominium theory which asserts that the condominium form of housing holds the potential of providing land based equity growth at a lower cost than the usual form of fee simple ownership (thus being particularly suitable for lower income classes); and condominium practice which indicates that this potential has not been and cannot be realized within the current development framework.

Specifically, the major findings included the following:

(1) Condominiums, as a prominent element of the near future housing stock in Winnipeg, could play a major role in providing housing for lower income consumers.

(2) Although variation exists in the current registered stock, the supply is limited in terms of the effective demand it can generate from

lower income consumers.

(3) There is limited government (federal, provincial and municipal) intervention into the condominium market (either through the legislative, procedural, or active government policy channels) and as a result, the supply and demand characteristics are determined mainly by private market forces.

(4) Although there is a great variety in the characteristics of condominium occupants; the elderly, households with children, the middle aged and lower income consumers in general have minimal involvement or are totally excluded from the market. However, indications are that latent demand is strongest for the lowest priced units presumably by lower income groups, who are currently unable to enter into the market.

(5) The larger developers and lenders have the greatest involvement in the market. The minimal involvement or total exclusion of small developers, small investors and all levels of government from the market indicate that the developers and lenders currently involved, possess a great deal of power in terms of the prices they can charge for the units and the consumers they can select for lending.

(6) There are currently three major obstacles to the entry of lower income consumers into the Winnipeg condominium market, namely: (i) prices of units, in general, are not low enough to enable lower income consumers to enter the market; (ii) even when the units are marketed at relatively low prices, the total monthly costs of ownership are not low enough to enable lower income consumers to keep up with monthly payments; and (iii) units that can be afforded, both in terms of the initial acquisition price and total monthly costs, by certain income groups, are nevertheless

marketed to buyers with relatively higher incomes.

(7) The numerous reasons underlying these obstacles can be grouped into four major categories, namely: limited involvement by consumers; limited involvement by developers (high levels of profit); limited involvement by lenders; and finally, the characteristics of condominium structures and the nature of condominium ownership.

By illustrating the results of private market activity in an atmosphere of relative freedom from government intervention, the study identified the need for active government participation into the condominium market in order for lower income groups to benefit from the potentials of condominium ownership. The proposals which provided some amount of guidance for undertaking this active role consisted of measures affecting the demand for and supply of condominium units. Specifically, they included: (i) policies relating to correcting market imperfections (education); (ii) policies to remove capital market discrimination (subsidized loans); and (iii) policies to remove uncertainty (inspection).

CHAPTER I
THE CONTEXT

INTRODUCTION

Using Winnipeg as a case study, this thesis examines the extent to which condominiums¹ currently provide housing for lower income consumers² in the Winnipeg market, and investigates the viability of this form of residential development in a policy of encouraging homeownership³ for greater numbers of low income Canadians. The condominium form of development, in view of its far reaching beneficial economic and social implications, holds great potential in being a particularly viable form of development in meeting lower income consumer housing

1. Ownership of condominium housing consists of full ownership of a unit (individual suite) and shared ownership and responsibility of "common elements" (all property outside of the individual unit boundaries); such as land, halls, elevators, recreational facilities and parking areas. It is important to recognize that the distinction is established as a result of legal definition of ownership rather than structural differentiation of the dwelling unit. Because of this, the Manitoba Condominium Act does not provide any structural definitions of "condominiums". Rather, the developer is flexible in the type of condominium project he creates; providing units either in apartment buildings, town houses, detached or semi-detached housing. Although all condominiums are thus governed by the same legal framework, the social and economic implications of the four most common structure and construction types; that is to say, converted apartments, converted town houses, new apartments and new town houses; may nevertheless differ for the various actors involved in the market. The fact that a unique legal definition of ownership applies to all types of condominiums has made it possible as well as essential, in some sections of this thesis, to speak of condominiums in an aggregate form -- as a unique sector of the housing market -- regardless of the type of structure and construction of the various projects. However, where social and economic implications have differed for the various types, the condominium phenomenon has also been disaggregated in other sections of the thesis in order to bring out these differences.

2. Lower income consumers are defined in this thesis as those consumers who desire homeownership but are not in a financial position to acquire single family dwelling units or condominiums at the existing market prices.

3. This thesis encourages facilitating homeownership rather than the provision of rental tenure in view of advantages of homeownership to consumers such as control over management and use of property, greater stability in monthly payments and building of equity.

needs. In consideration of the fact that housing is a most basic necessity and the increasing difficulties in affording the financial costs of required housing by lower income consumers, it is imperative than any option which presents itself as a viable one in fulfilling this need, be thoroughly explored.

HYPOTHESES

This thesis takes part in this exploration by examining two basic hypotheses:

(1) Condominiums in the Winnipeg market currently provide "substitutes"⁴ and "alternatives"⁵ to consumers in the middle, higher-middle and high income categories, thereby excluding from the market, consumers in the lower income brackets;

(2) The condominium form of residential development, in theory offers an excellent opportunity for providing ownership to lower income consumers, due to potential cost savings in construction. However, due to inherent cost characteristics of condominium structures and ownership and to the nature of existing market demand and supply forces, condominiums cannot fulfill this role in the absence of substantive

4. Condominiums as a "substitute": replacement for detached single family dwelling or rental tenure, either temporarily or permanently, where it is perceived by the consumer, that the ownership of a condominium is economically more feasible in the short run (initial acquisition terms) as well as in the long run (total monthly payments and building of equity).

5. Condominiums as an "alternative": preference for the condominium lifestyle rather than the detached single family dwelling or rental tenure in order to be free from the responsibilities that would normally be associated with the single family dwelling ownership and/or benefit from the advantages of private ownership such as the building of equity in property, flexibility and security of tenure.

government intervention. It is therefore necessary to formulate a policy framework addressed specifically to condominium development, within which governments may opportunely act to facilitate the participation of a greater number of low income consumers in the homeownership market.

OBJECTIVES

Hence, the objectives of this thesis are:

(1) To examine the supply and demand characteristics of condominiums in Winnipeg, thereby identifying the forces affecting the rate and costs of condominium development and ownership;

(2) To determine the resulting role of condominiums in the market, that is, to determine which income sectors of the housing market are presently served; and

(3) To propose a development policy framework directed towards encouraging and promoting the utilization of the condominium as a vehicle to homeownership by lower income consumers.

OUTLINE

The study will attempt to achieve the above stated objectives in the following sequence.

Chapter II will examine condominium development and legislation. Firstly, a brief history with a focus on Canada will be presented. This will illustrate the lengthy existence and world-wide use of the concept as well as the necessary framework within which developments in Canada can take place. Secondly, in order to provide an understanding of the supply side of the market, the condominium growth trends in Winnipeg will be examined and various characteristics of the projects

will be described. Growth patterns will illustrate that there is a marked change in the rate of condominium growth since 1975 and that the current rate of growth indicates condominiums will play a significant role in the Winnipeg housing market of the near future. The characteristics of supply will indicate great variations in the structure and construction types, in the location, size and design of projects and units in condominiums currently on the market. An important finding will be that this supply, although on the increase and exhibiting great variations, is limited in terms of the effective demand that it can generate from the lower income sector of the market. Thirdly, the legal and procedural framework for condominium development in Manitoba will be discussed through an examination of the federal, provincial and municipal legislation, the existing active government policies and the procedures followed in the creation of condominium corporations. The discussion will attempt to illuminate the existing deficiencies in these government avenues for intervention with respect to their limitations in promoting the utilization of the condominium concept for the benefit of lower income housing consumers. This procedure for analysis will thereby illustrate the overall lack of government direction and initiative in pursuing this objective.

Chapter III will identify the "actors"⁶ in the Winnipeg condominium market. Since the characteristics of supply are partially dependent upon who the suppliers and the buyers are; this chapter, by identifying the actors, will attempt to explore the underlying reasons as to the

6. "Actors" in the condominium market: individuals or groups of individuals whose actions, in one way or another, have an impact on the characteristics of demand and supply in the market.

role condominiums currently play in the market and the potentials for change in that role in view of existing demand and supply characteristics. Included will be an examination of the demographic and occupancy characteristics of consumers and the identification of "developers"⁷ and lenders active in the market. This discussion will indicate the heterogeneity of effective demand and of the suppliers. However, an important finding will be that this variety in effective demand and suppliers is limited in that there are clearly certain groups such as the low income consumers, single parents, the elderly, small developers and investors, who are either totally excluded or have very limited involvement in the market.

Chapter IV will examine the behaviour of market participants thereby identifying the nature and degree of actors' involvement in the condominium market. This discussion will illuminate the numerous reasons for involvement and limited or non-involvement by consumers, developers and lenders. This then will further clarify the factors affecting the rate of growth as well as the nature of developments (hence the role of condominiums) in the Winnipeg market. Several behavioral obstacles which are currently preventing the participation of lower income consumers in the condominium market will emerge from this chapter. These obstacles, related to purchasing, managing, constructing, marketing and lending in the condominium field, will clearly indicate the need for government intervention and the channels through which such intervention should proceed.

7. "Developers": owners of the property at the time it first becomes identified as a condominium.

Chapter V will examine the "economic costs"⁸ and benefits of condominium development and ownership during the pre-purchase, occupancy and post ownership phases in order to provide an understanding of their nature and extent and hence determine the economic obstacles to condominium ownership by lower income consumers. These obstacles related to the monthly costs of condominium ownership, inherent costs of condominium development and conversion and the nature of private market activity as a result of the profit motive, will indicate additional channels through which government intervention should proceed.

Chapter VI will synthesize the findings of the previous chapters with the objective of bringing into focus the major obstacles and their underlying reasons which deter lower income consumers from participating in the market. This synthesis will illustrate the actual divergence between the theory of condominium utilization which indicates a potential for entry of lower income consumers into the ownership market and the current practice of condominium development which prevents the realization of this potential. Concurrently, in addressing these obstacles a development policy framework, containing directives to make condominiums a vehicle to homeownership for consumers who are currently excluded from the market, will be proposed. Included will be policies related to the correction of market imperfection (education), the removal of capital market discrimination (subsidized loans) and the removal of uncertainty (inspection).

Prior to proceeding with the investigation, it is necessary to

8. "Economic costs": pecuniary costs incurred in the various phases of condominium development and ownership. Hence, the thesis excludes a discussion of opportunity and social costs.

gain a clear understanding of the reasons as to why the above proposed inquiry is significant. Hence, the remainder of this chapter will attempt to provide a general background against which the study can be placed in perspective. Firstly, an overview of housing in Canada and Winnipeg will reveal trends in the housing markets of urban centres leading to a discussion of possible explanations to these trends. This overview will illuminate a number of contradictions within the current housing markets which particularly affect lower income consumers, thus indicating the need for exploring different means for matching the demand for housing by this group of dwellers with its supply. Following will be a discussion of the condominium concept, indicating the feasibility of this form of ownership as an option for the lower income brackets and hence, the necessity of exploring its potentials.

HOUSING IN CANADA AND WINNIPEG: AN OVERVIEW

In the past, the greater proportion of new construction dwelling starts in metropolitan areas has been single detached units; a trend which indicates high levels of demand for this form of dwelling and ownership tenure.⁹ However, housing market activities in Canadian urban centres during the 1960's and 1970's have been characterized by new trends, as illustrated in Graphs I.1 and I.2 and in Table I.1.

The following observations can be made:

- (a) The number of starts for single detached dwellings still

9. The Task Force on Housing and Urban Development, at its public meetings with various groups, found that at least 80% of those present wanted to own their own home; the same figure Professor Michaelson of Toronto obtained in a more scientific sampling. (The Task Force on Housing and Urban Development, "Impression -- Home Ownership" in K. S. Sayegh, ed., Canadian Housing: A Reader (University of Waterloo, 1972)).

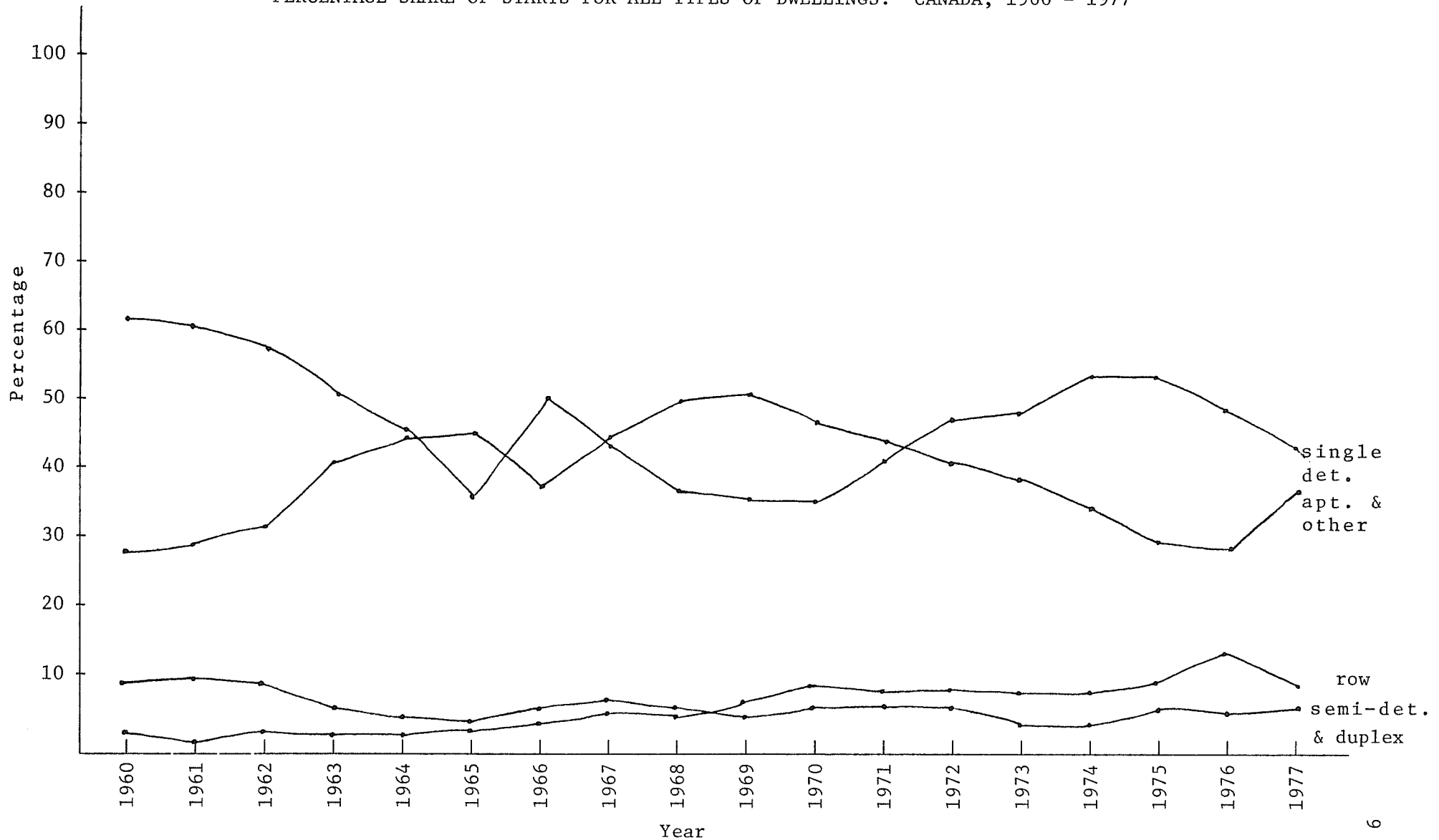
remains significant despite the fact that, as a proportion of the total number of dwelling starts, it has either been decreasing, remaining constant or increasing at a slower rate than in the past.

(b) The number of starts for multiple family units (apartments as well as row houses and duplexes), as a proportion of the total number of dwelling starts, has been increasing.

(c) A new form of homeownership, "condominium" has emerged and the number of newly constructed and converted condominium units has been increasing. In general, condominiums have developed relatively more rapidly in centres experiencing growth pressures.

GRAPH I.1

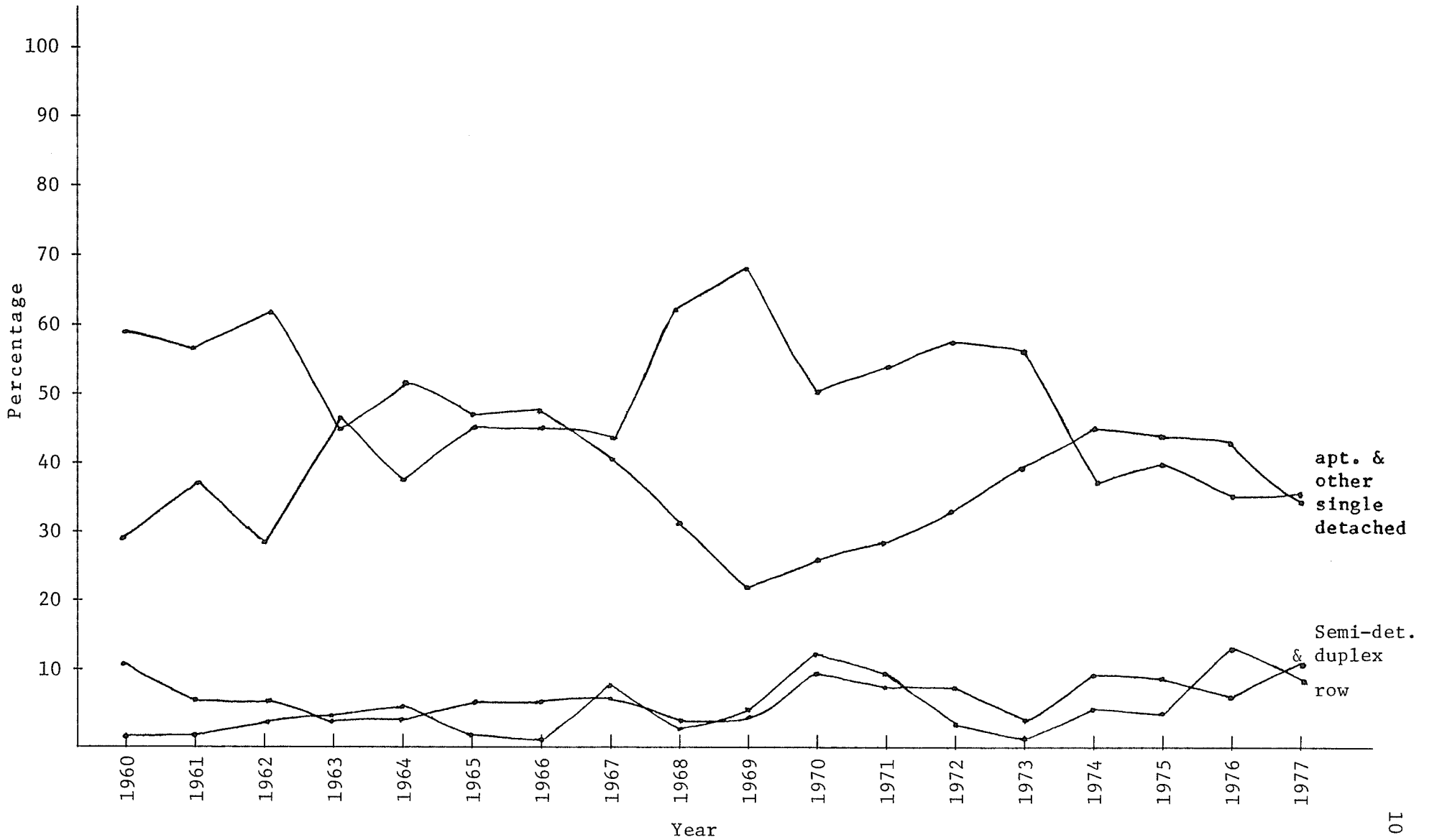
PERCENTAGE SHARE OF STARTS FOR ALL TYPES OF DWELLINGS: CANADA, 1960 - 1977



Source: Canadian Housing Statistics, Table 9, 1977.

GRAPH I.2

PERCENTAGE SHARE OF STARTS FOR ALL TYPES OF DWELLINGS: WINNIPEG, 1960 - 1977



Source: Canadian Housing Statistics, Tables 6 and 12, 1964 - 1977.