

Secondary Suites

A SUITE DEAL

Kingston developer building new homes that include secondary suites

When a business person keeps hearing the same question, it's not long before he or she comes up with an answer to that need. Ken Dantzer, Designer and Project Manager of CaraCo Development Corporation, was continually being asked by new homebuyers about rental income potential. So, when regulations governing secondary suites in his community changed, he acted on the opportunity to provide an affordable option.

"Buyers often want to know about income potential for their property and whether they can rent out a portion of the house, such as the basement. They might also have family needs that require a separate suite," says Dantzer. "So, we began building brand new homes in suburban areas that include a legal secondary suite. Each suite has its own front door. In the most popular design, one entry goes up to the main suite, and the other entry goes down to a self-contained lower level suite."

CaraCo is the first builder in Kingston to offer legal secondary suites in their homes. To date, the company has built 20 new properties, and counting, with secondary suites already either built in or roughed in.

A diverse market, serving diverse needs

A secondary suite is a private, self-contained unit within an existing home. It has its own bathroom, kitchen, living and sleeping area. Dantzer says there is a mixture of life situations that attract people to buy a home with a secondary suite. Some families have an elderly relative who will live in the suite independently, while having family close by. There are couples looking for extra income to make the purchase of the home more affordable and advertise to find a renter. Dantzer has also seen first-time buyers who are looking to break into the market—they live in the basement suite themselves and rent the upper suite. "A majority of purchasers already know who the occupant of the secondary suite will be," says Dantzer.



Secondary suites

No matter how it may be defined, tens of thousands of Canadians call secondary units by a common name: "home."

In 2014, a CMHC study of 650 Canadian municipalities found that:

- about 78 per cent of the municipalities studied allowed secondary suites;
- compared to previous studies, secondary suites appear to be a growing housing option. For example, in Vancouver, where land is in high demand, in 2014, there were about 26,600 secondary units providing much-needed housing;
- the percentage of municipalities that permit secondary suites increased from only 54 per cent (220 of 404 municipalities) in 2006 to 78 per cent (292 of 373 municipalities) in 2014.

While secondary suites could be on the ground floor, or in the attic, the most common layout would locate the secondary suite in the basement, a space that more easily allows for privacy and practical suite separation.

Commonly, illegal basement secondary suites are created through internal alterations, which means size and quality of the units can vary widely. Dantzer believes the suites his company constructs have some notable advantages over these types of conversions. For example, they have complete up-to-code fire and acoustic separations, higher ceilings than basements in older homes and more natural light.

Dantzer's design offers the deliberate choice to have an internal interconnecting door. "A common reason for this is the tenant is an aging relative. If their family dynamics change or other needs evolve, or if the owner just changes their mind, they can easily lock the door or reintegrate the secondary suite into their home," he says.

Community benefits

As a long-time resident and builder, Dantzer understands that adding secondary suites to Kingston's housing stock was a sensitive topic. The city's downtown area had experienced issues with illegal suites. However, he felt that, in addition to meeting a strong buyer demand, building homes with secondary suites could be positive for local neighbourhoods and the community as a whole.

"These secondary suites are serving a valuable need in that vacancy rates in the community are still quite low," says Dantzer. "The whole community also benefits in that low-density areas have more people using services. Underused bus routes see more riders, for example. More people in a neighbourhood make it more worthwhile."

CMHC research has shown that secondary suites can contribute to communities in many ways. With households becoming smaller, secondary suites generally do not place an extra burden on municipal infrastructure or services beyond the original design capacity. In fact, by helping to reduce the decline in neighbourhood density, secondary suites can absorb underutilized capacity and allow for the more effective use of resources, such as water, sewer, and garbage collection services.

Dantzer points out that secondary suites add more affordable rental units to the community's housing mix, without having to build at a high density, which does not always fit with the character of the local neighbourhood. "It's a good use of land in low-density areas—additional occupants are more easily absorbed. The tenancies in these units tend to be positive. The owner is usually on site, and so is aware of any problems that may arise so they can be quickly addressed. The tenants tend to integrate well into the community."



Figure 1 The secondary suite includes a full kitchen with an open-concept living room/dining room.

A changing legal landscape

The Ontario *Strong Communities through Affordable Housing Act* was created in 2011 to improve access to adequate, suitable and affordable housing in the province. The legislation amended the Planning Act to specifically identify affordable housing as a provincial interest and enhance provisions for secondary suites.

Municipalities are required to establish official plan policies and zoning bylaw provisions allowing second units in single-detached, semi-detached and row houses, as well as in accessory structures, such as above laneway garages.



Figure 2 One of two bedrooms with good natural light.

Safe at home

One of the concerns municipalities have had in the past with secondary suites is safety. Illegal secondary suites might not conform to current building and fire code standards. Legalizing secondary suites improves safety because it creates the opportunity for local authorities to engage with property owners in bringing units up to proper standards. Not only does this improve safety, it enhances the well-being of tenants, and improves peace of mind for owners.

In Kingston, Dantzer and CaraCo Development help new homebuyers meet this challenge right from the start. This, of course, also means local authorities are assured that the new secondary suites entering the new housing stock were built using the very latest standards. For example, the suites are built with a full fire separation, as is found in most duplexes and townhouses. The secondary suites have a legal complete kitchen. There are integrated smoke alarm and carbon monoxide detection systems. Basement suites have properly sized egress windows, which means an occupant could climb outside in case of emergency as a second means of egress.

“Because it is new construction, we create a secondary suite that is legal and safe, which is more cost-effective than renovating later,” says Dantzer.

Enhancing affordability

Secondary suites can make homeownership more affordable for first-time homebuyers by offsetting mortgage costs with rental income. In fact, as of September 2015, CMHC considers up to 100 per cent of gross rental income from a two-unit owner-occupied property that is the subject of a loan application submitted for insurance. The annual principal and interest for the property, including the secondary suite, must be used when calculating the debt service ratios.¹

Secondary suites can also provide the additional income that helps people stay in a home longer as they age. In many markets, secondary suites—and the potential rental income—can add resale value to a home.

Dantzer sees his clients taking advantage of these opportunities. “The homebuyers who are renting out these suites are getting around \$1,000 per month for a two-bedroom lower level suite. These are clean, modern suites, with elevated basements, bright windows and plenty of natural light. They are attractive places to live in,” says Dantzer.

He points out that, for an additional cost in the tens of thousands, buyers are getting “two homes in one.” For example, one of the company’s designs offers a single-detached home on a lot with 11.6 m (38 ft.) of frontage and includes a fully finished basement secondary suite for an additional \$59,900. There is a self-contained owner’s suite with separated heating systems. “It’s a marginal jump in the original cost to have that ongoing money-making potential.”

Edmonton adds legal suites

The City of Edmonton changed its bylaws in 2007 and again in 2009 to remove many of the restrictions on secondary suites. Using financial incentives, the City encouraged homeowners to upgrade existing suites or add new ones through the five-year Cornerstones affordable housing program. This program helped to create more than 530 secondary suites, with half of the suites being new and half being existing suites that were upgraded to meet safety and building codes.

¹ http://www.cmhc-schl.gc.ca/en/hoficlincl/moloin/rean/rean_057.cfm (Treatment of Rental Income for Borrower Qualification Purposes — Homeowner [1 – 4 Units])

Conclusion

When Canadians choose to make an investment in creating a secondary suite, it's a choice that has benefits for the community. Secondary suites can increase the independent accommodation options for seniors, students, and persons with disabilities. A consistently low volume of construction of new purpose-built rental housing over the past two decades has led to low vacancy rates and rising rents in some parts of Canada. Case studies from across the country illustrate the many benefits of secondary suites for homeowners, tenants and communities. A common element of success is that local support needs to be there—from both local and provincial government.

Now, with changes in demographics, economics and community goals, private-sector homebuilders are stepping in with innovative products to meet the demand for secondary suites. Dantzer simply sees it as a reflection of something the modern consumer wants—flexibility and choice. “Many buyers move from a condo, then up to a townhouse and then to a larger single-family home. Buying a home with a secondary suite could allow you to take all those steps and never have to move,” he says. “The main thing is, a secondary suite can evolve along with you, your family and all your life needs.”



cmhc.ca



68579

©2016, Canada Mortgage and Housing Corporation
Printed in Canada
Produced by CMHC

13-06-16

Although this information product reflects housing experts' current knowledge, it is provided for general information purposes only. Any reliance or action taken based on the information, materials and techniques described are the responsibility of the user. The predictions for energy consumption and production of the building are based on computer modelling and current understandings of best construction practices. Actual building performance may vary. Users are advised to consult appropriate professional resources to determine what is safe and suitable in their particular case. Canada Mortgage and Housing Corporation assumes no responsibility for any consequence arising from use of the information, materials and techniques described.