

Policy Paper: Suburban Land Holdings

1988

The Institute of Urban Studies





THE UNIVERSITY OF
WINNIPEG

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POLICY PAPER: SUBURBAN LAND HOLDINGS

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The Institute of Urban Studies is an independent research arm of the University of Winnipeg. Since 1969, the IUS has been both an academic and an applied research centre, committed to examining urban development issues in a broad, non-partisan manner. The Institute examines inner city, environmental, Aboriginal and community development issues. In addition to its ongoing involvement in research, IUS brings in visiting scholars, hosts workshops, seminars and conferences, and acts in partnership with other organizations in the community to effect positive change.

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POLICY PAPER
SUBURBAN LAND HOLDINGS
March 1988

Institute of Urban Studies
University of Winnipeg
Winnipeg, Manitoba
Canada

**SUBMISSION TO CABINET
THE MANITOBA HOUSING AND RENEWAL CORPORATION**

SUBJECT: MANITOBA HOUSING DEPARTMENT SUBURBAN LAND HOLDINGS

BACKGROUND

E.R.I.C./Jobs Fund rejected joint venture proposals for the development of Meadow West Stage II and the John Bruce property on August 13, 1986. Manitoba Housing was asked to negotiate better proposals with eligible proponents but E.R.I.C./Jobs Fund rejected these new proposals in October 1986. A third and final proposal has been submitted by NWC Development Corporation, one of the original eligible proponents. Their proposal was open for acceptance until January of 1988 but they have extended their offer and it is still pending.

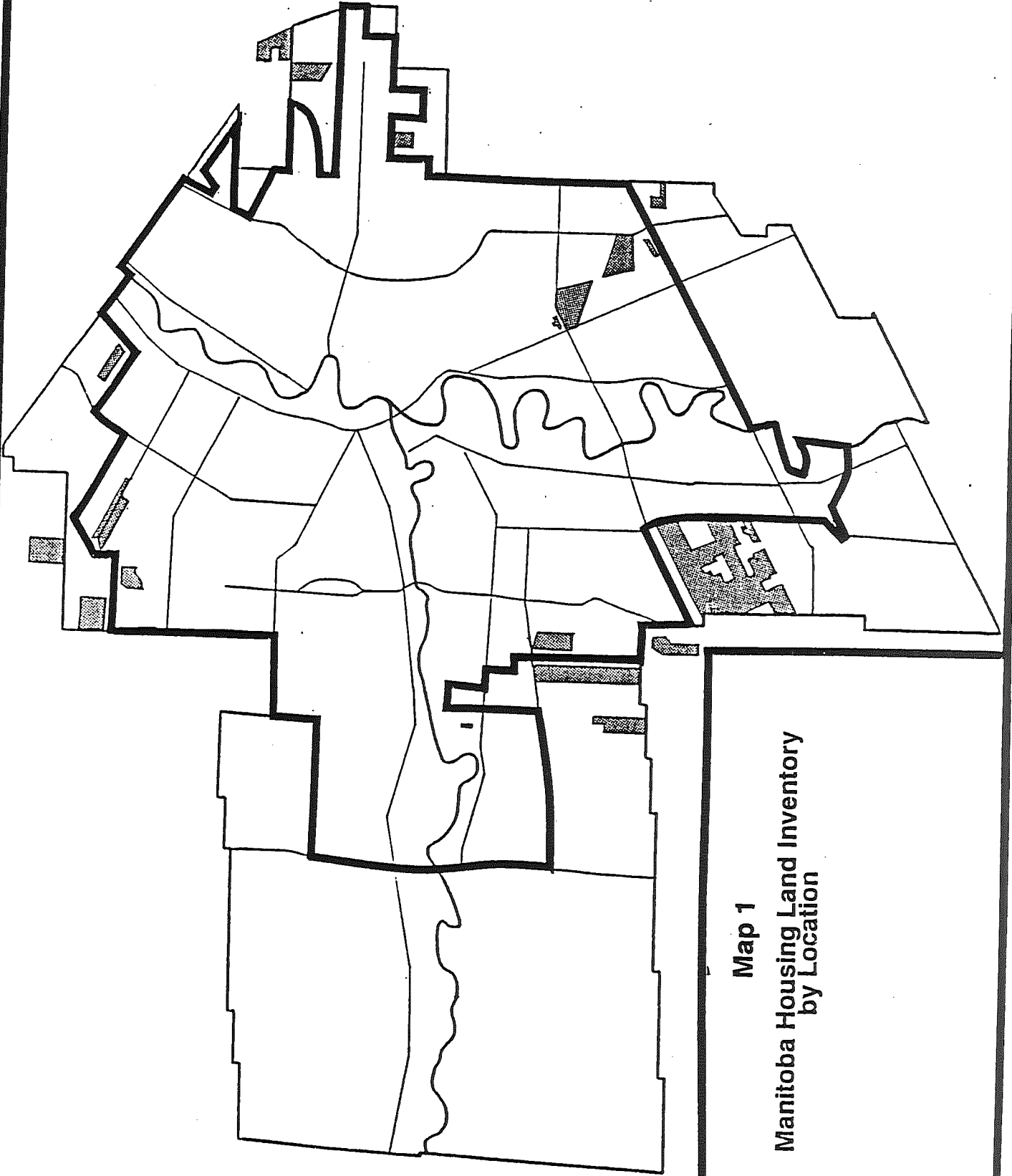
While these joint venture proposals were in progress Manitoba Housing commissioned a study from the Institute of Urban Studies to review the direction of land development activities in Winnipeg. This study supported land disposal although it held the door open on several parcels, including those under discussion, and suggested alternate strategies if the disposal strategy was not acceptable.

In addition, E.R.I.C./Jobs Fund has requested that Manitoba Housing review the option of developing its own land.

As a result of this set of circumstances Manitoba Housing has prepared this policy paper to examine all the possible options for dealing with these particular parcels as well as other suburban holdings.

ISSUE:

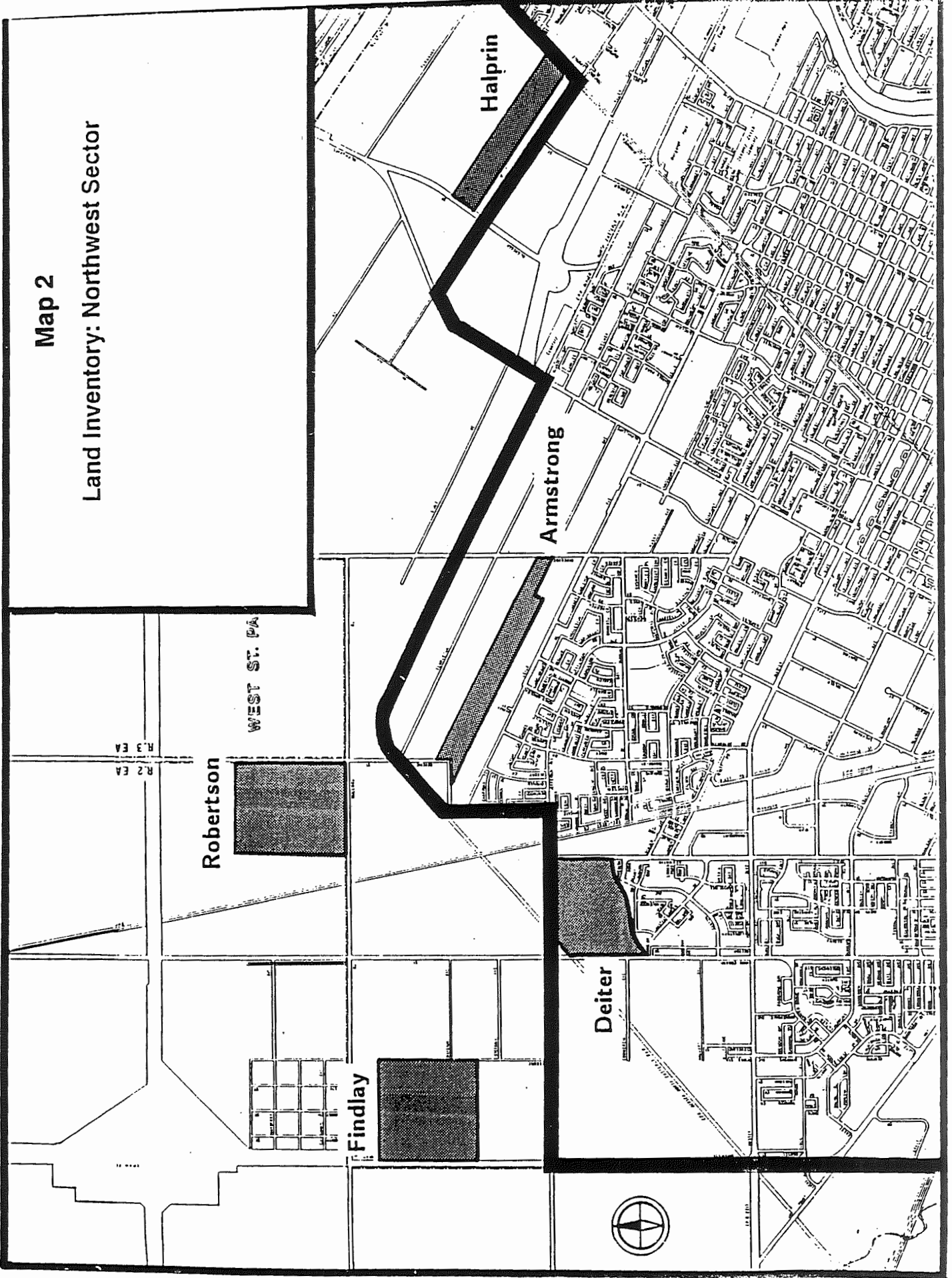
The MHRC currently owns approximately 3300 acres of raw land in the suburban areas of Winnipeg (Map 1). Much of this land is well removed from development but three parcels: Meadows West Stage II (Dieter Property), Bruce Road and Fraipoint are in the immediate path of development (Maps 2&3) and the



Map 1
Manitoba Housing Land Inventory
by Location

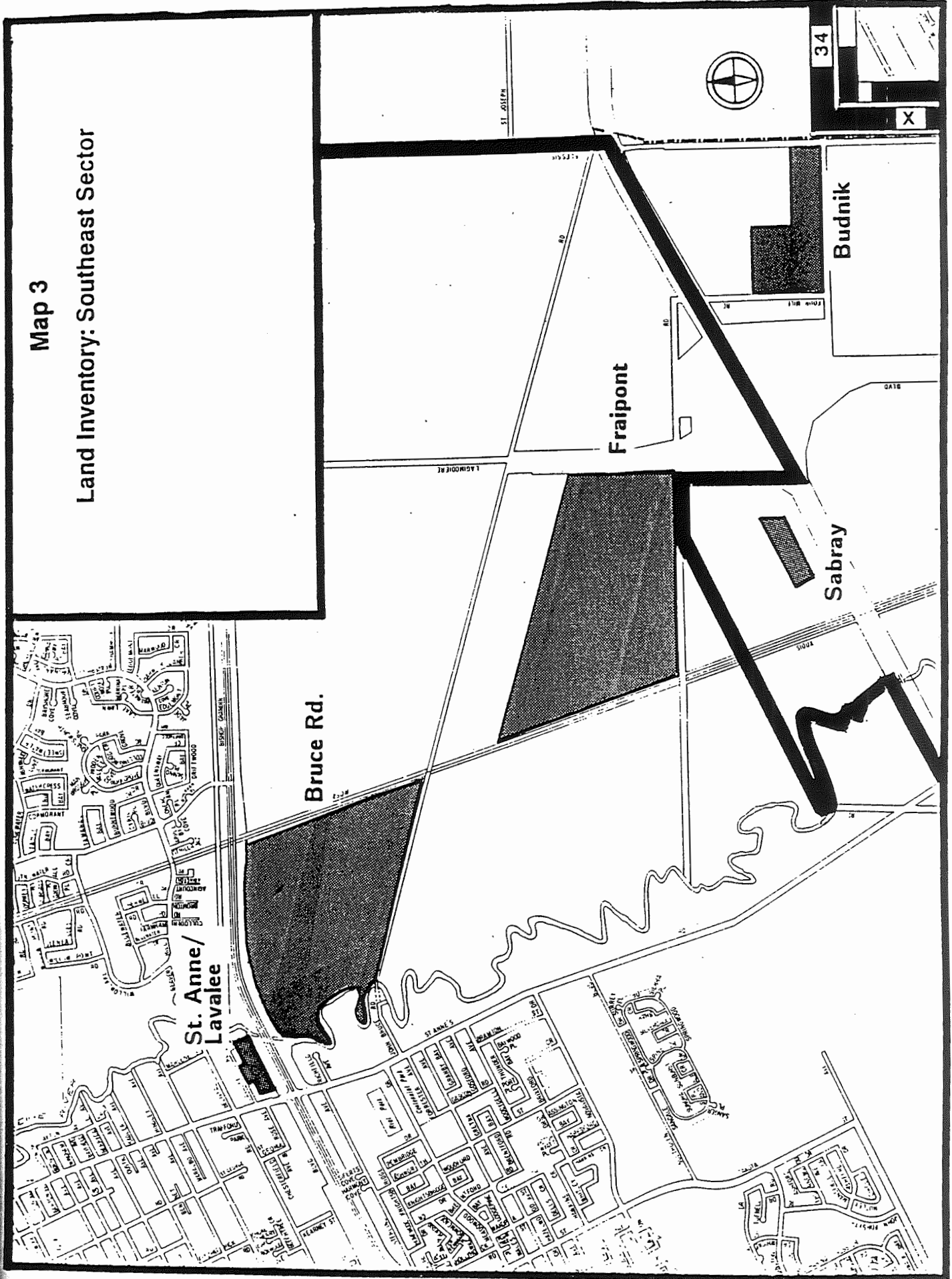
Map 2

Land Inventory: Northwest Sector



Map 3

Land Inventory: Southeast Sector



property in South West Fort Garry (Map 4) could be prime development property within ten years given its location. The size of this property also presents the province with a controlling influence in the area over a period of years once development starts.

Most of the remaining holdings are in excess of ten years from development and approval has been given to dispose of this property.

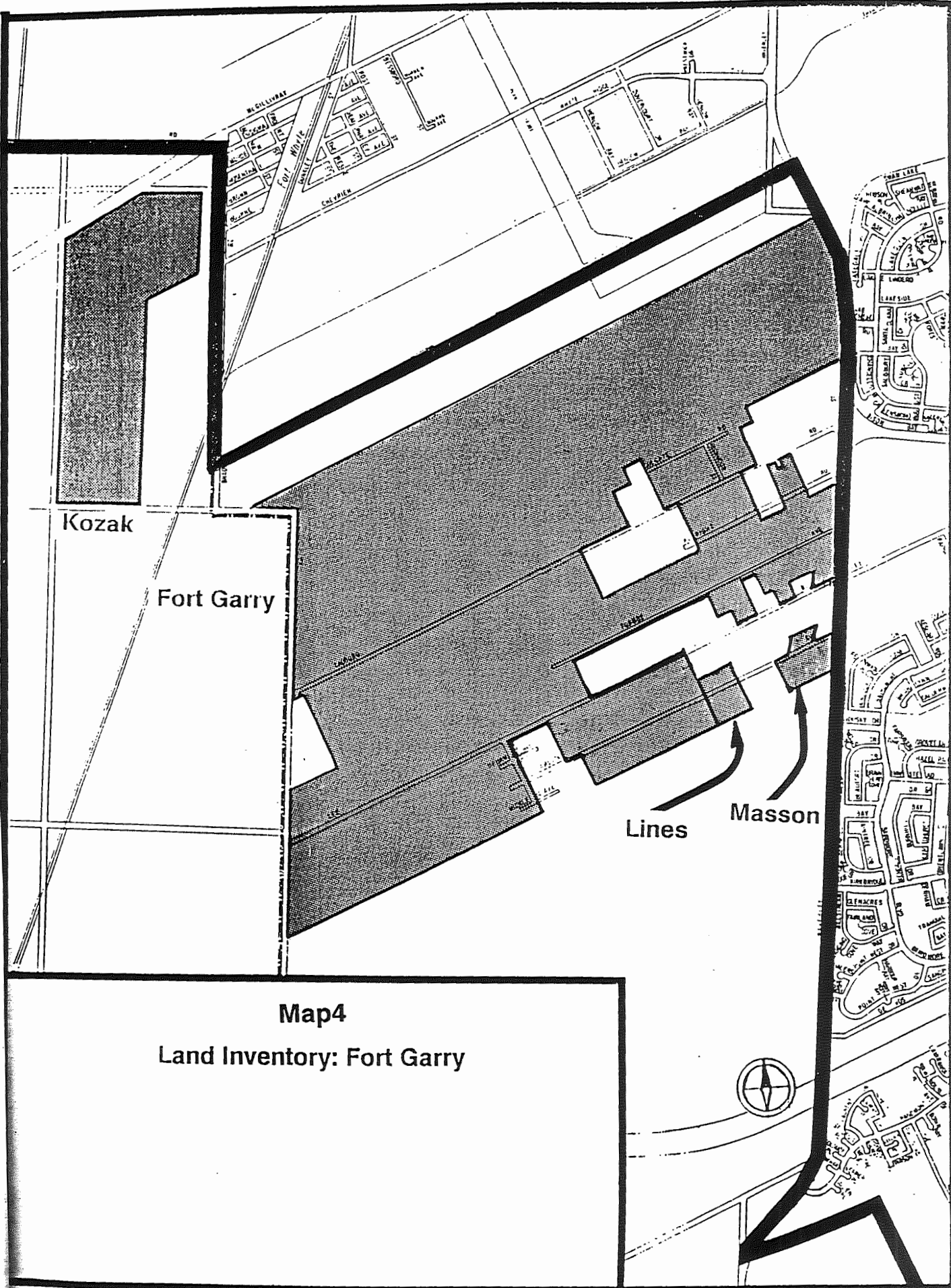
The Issue this paper addresses is the development of a policy to handle the three parcels in South St. Vital and the larger holdings in South West Fort Garry. In a broad sense the province must decide if it wants to:

- a) sell the property to private interests as it has decided to do with property further from development; or,
- b) hold and develop the land and within this option to chose from a variety of approaches to development.

Within these broader policy option the province must also decide what fiscal objectives it wishes to pursue. A variety of options will provide the province with the opportunity to

- make money;
- break even; or,
- accept a loss but in the process pursue social and policy objectives that are not necessarily profit oriented.

The following paper discusses the rationale for public involvement in land, the historical context of the problems, the market scenario for suburban development and the variety of policy options or alternatives available to the province. The advantages and disadvantages of each policy alternative is discussed and the fiscal implications indicated. The report concludes with a recommendation.



Map 4
Land Inventory: Fort Garry

ANALYSIS

HISTORICAL CONTEXT OF THE PROBLEM

During the late 60s and early 70s the federal, provincial and municipal governments entered the field of land ownership and development in a major way. This initiative was prompted by a perceived rapid escalation of urban land values and, some would suggest, an increasing scarcity of well serviced, developable land. Many felt this scarcity of land was prompted, if not promoted, by monopoly control of ownership and development by a few major developers. In Canada, the price of single family building lots increased five fold between 1960 and 1980. In the 70s alone prices almost doubled in the period 1970 to 1975 and doubled again between 1975 and 1980.

The impact of urban land prices on housing affordability was the subject of several studies. The Hellyer report recommended that:

Municipalities or regional (metropolitan) governments, as a matter of continuing policy, should acquire, service, and sell all or a substantial portion of the land required for urban growth within their boundaries...

The federal government should make direct loans to municipalities or regional governments to assist them in assembling and servicing land for urban growth.

These recommendations were repeated and even elaborated on in the Dennis report which stated that

...a large scale land banking program would entail the acquisition of a sufficient supply of land to meet all urban requirements for a ten-year period, although the land would be marketed over a longer period of time (at least twenty years). The public land bank would market from one quarter to one half of the land required in any given year and thereby set the pricing pattern. They would be in a position in any given year to flood the market and depress prices.

The Dennis report also suggested that municipalities should have greater control over the assembly and development of land and should be given increased grants and loans by the provincial and federal governments as well as increased

municipal revenue sources. Heavier taxes on land sale profits were also recommended.

It was within this atmosphere of escalating prices and strong support (both politically and financially) from the Federal Government that both municipalities and provincial government entered the land banking and development field.

In the late 60s and early 70s Manitoba Housing purchased land only for specific development. The land was usually purchased by proposal call and the call generally specified the number and type of units that would be built on the land. Land was purchased with a specific purpose in mind.

The decision to bank land without specific projects in mind occurred in 1972/73. Again the decision was made within the atmosphere of escalating prices and a political philosophy that government could and should play a role in moderating prices. The final decision to bank, however, was really prompted by the availability of federal funds. Repayable loans to 90% of land value at 10% interest were made available. The general provincial political philosophy was that if the federal government was prepared to finance the purchase then the province should buy, buy big and buy anything. This is exactly what Manitoba Housing did, in spite of the cautionary advice of some staff within the organization.

This attitude prevailed until the mid to late 1970s. A change in attitude was prompted by the withdrawal of federal monetary support for land banking and development. However, by that time a considerable portfolio had been acquired, both in Winnipeg and in many smaller centres throughout the province. In retrospect the federal loans at 10% were not such a great bargain. If the land continued to escalate in price and was used within a short time frame (three to five years) market value still exceeded book value. However, if the land had to be held for any length of time, interest charges on the loan rise and book value often exceeds market value. If the land values fall as they have during the last two to three years then the problem is exacerbated.

During this time period Manitoba Housing purchased in excess of 4,000 acres of land, approximately 3,500 around the City of Winnipeg and about 600 in centres

outside of Winnipeg. Of the approximate 3,500 acres purchased around Winnipeg 3,300 acres still have not been utilized.

Public initiative in Winnipeg probably led to an increase in prices during the early 70s because in 1972 the government of Manitoba combined the municipalities in the Winnipeg area into Unicity which in that particular year virtually stopped subdivision approvals. At the same time, Winnipeg itself imposed higher servicing standards and new policies against sprawl. Therefore, right at the beginning of the period of most intense demand the provincial and municipal governments combined to tighten supply. This, no doubt, had an effect on the significant increases in lot prices in the 70 to 75 period. As well, the fact that the government was out buying land in the early 70s also helped drive up land prices. Land was purchased indiscriminantly by the government both with respect to the location and the price paid. The private market soon recognized that the government was making major purchases in an indiscriminate fashion without great concern for prices so prices immediately escalated.

In conclusion as a result of this expansionary period of land purchasing the provincial government has accumulated a substantial land bank around the City of Winnipeg. Some of the land is in the path of development in the immediate or near future but much of it is realistically at least fifteen or twenty years from expected urban growth requirements.

Extensive purchasing at this time was not unique to Manitoba nor is the problem of significant holdings often far removed from development. Ontario, Saskatchewan, Alberta, and British Columbia have similar problems. Over the past few years these provinces have pursued a variety of measures to try and reduce their holdings including:

- a) selling the land to local municipalities, sometimes at less than book value.
- b) joint venture with the private sector
- c) privatization or outright sale of holdings to the private sector; and,
- d) continued development of properties that are marketable.

In pursuing these options cost write-offs have been common. For example, Alberta has written off land costs in excess of \$175,000,000. In Saskatchewan

cost write-downs have exceeded \$10,000,000 and in Ontario the figure is close to \$300,000,000.

THE MARKET SCENARIO

INTRODUCTION

Increasingly Canadian society is moving into a mature growth stage characterized by lower rates of growth and an ageing population. Manitoba, and particularly Winnipeg, will be subject to many of the same social, economic and most importantly demographic trends that are affecting Canadian society, particularly urban society in this mature growth stage.

As growth rates decline, it is evident that the nature of planning problems including land planning have changed. Rapid household growth and buoyant economic conditions dictated a need for rapid suburban expansion in the 50s, 60s and 70s, but current and projected demographic and economic growth rates will not necessitate the same expansion over the next ten to twenty years. Suburban expansion will not stop entirely, but the new emphasis will be on the existing built environment. Issues related to housing intensification, mixed use development, infill housing, inner city subdivisions, inner city infrastructure, housing rehabilitation and renovation and neighbourhood improvement, all associated with the inner city or older neighbourhood will be more prominent in the future. This will necessitate a new and different set of land policies and land planning procedures.

THE ECONOMY

- Economic conditions have improved considerable in Manitoba during the past three years. Annual growth rates for economic variables such as the gross domestic product, capital investment and consumer spending have been, and are expected to continue, to be as good or better than the Canadian average through to the early 1990s.
- Unemployment rates will continue to be amongst the lowest in Canada. Limestone and investment in redevelopment in Winnipeg will generate new employment and the more diversified nature of the economy will help protect the province from the recessionary trends in the resource and agricultural sectors.
- This modest but positive economic growth will result in very modest improvements in household income which will have a moderately positive effect on housing demand. However, overall housing demand will be tempered by demographic change.

POPULATION AND HOUSEHOLD GROWTH

After modest population growth in the late 1980s which is expected to continue into the 1990s the province's population will experience very little growth. Winnipeg, however, will continue to experience modest growth into the next century.

- . The City's population will age substantially as the baby boom generation, the most prominent feature of the population structure, moves from the current age group of 20-39 to 35-54 years of age. As well, there will be a substantial increase in the seniors population.
- . Modest population increase, combined with little change in headship rates, will result in only modest increases in households. Nuclear families (baby boomer couples with children) will dominate the market over the next few years, but these families will be smaller than in the past. Non family households, many of them seniors, and couples without children will also be important market segments.
- . Growth will continue to be concentrated in suburban areas. Over 60% (60,000 people) of the City's growth is expected to be concentrated in St. Boniface, St. Vital and the Fort Garry area between 1986 and 2001. However, increased emphasis on inner city renewal and revitalization will result in modest population gains in the inner city, particularly the area influenced by the Core Area Agreement.

HOUSING REQUIREMENTS

Demographic trends will result in an overall decline in housing requirements. Annual housing requirements are expected to fall from 5000 units annually in the 1986 to 1991 period to 3750 in 1991 to 1996 and 2750 by the turn of the century

- . With the ageing of the population, move-up buyers will be the dominant element in the market place. The proportion of housing starts that are rental starts is expected to fall from 30% in the 1986 to 1991 period, to 20% by the year 2000. The concentration on ownership units will mean a continued although declining demand for suburban property.

THE POLICY OPTIONS FOR THE PROVINCIAL GOVERNMENT

Manitoba Housing has already recommended that holdings in excess of ten years from development be sold. This paper addresses what policy the province should adopt for land that is developable in the immediate to short term future.

THE RATIONALE FOR PUBLIC INVOLVEMENT

Why should public agencies be involved in land banking and development? A review of objectives of a variety of public agencies suggests the rationale put forward for public involvement covers a wide variety of issues and reasons including:

- . increasing the supply of moderately priced land to moderate overall market prices. The intent is to be a large enough actor in the market place to deter excess profit-taking by the private sector;
- . promotion of market stability and affordability by ensuring an adequate supply of land;
- . providing a land base for social housing;
- . providing lots to small non integrated builders so they can compete in the market place;
- . providing lots to individuals or families who wish to build their own home or have it custom built;
- . controlling the direction of urban growth;
- . capturing the increment (profit margin or difference between costs and market price) to finance other public initiatives;
- . general economic development objectives such as using land indirectly via other housing program vehicles to stimulate employment and affordability.

Pursuing many of these objectives does not rule out a profit margin for public agencies but it must be recognized that profit is not always the motivating factor for public involvement. Responding to some objectives will not result in a profit on the land operations alone although it may achieve social objectives and save money in other areas. Therefore, within this broad policy context the province must decide what fiscal objectives it wishes to pursue. One of the following options can be chosen:

- a) make money;
- b) break even;
- c) accept a loss but in the process pursue many of the social and policy objectives outlined above that are not necessarily profit oriented.

Given the rationale for public involvement and provided the provincial government can decide on what fiscal objectives it wishes to pursue there are a number of options the government can consider for the three properties Meadows West Stage II and the John Bruce and Fraipoint properties in South St. Vital. These three parcels should be developed immediately. However, any policy approved should apply as well to other properties such as the land in South West Fort Garry that is also reasonably close to development.

Six possible policy options are discussed below. The province can:

- 1) sell all the property to private developers and remove itself entirely from involvement in suburban land.
- 2) hold the land and develop it for the market in general.
- 3) hold the land and develop it for innovative housing options for specific sectors of the market such as seniors, first time buyers, etc. These groups need not be low income households.
- 4) hold the land and develop it for social housing purposes, ie. accommodate clients that cannot afford housing on the private market.
- 5) joint venture the development of the property with private firms, participating in both the expenses and revenues generated.
- 6) sell the property to Manitoba Properties Incorporated (MPI) and have MPI pursue a variety of strategies to develop and sell the land.

Evaluation of Policy Options

Each option is discussed below and the advantages and disadvantages of each discussed.

1) Sell the Property to Private Developers

a) Advantages

- (i) *Sale of the property will remove the province from any risk associated with development or continued holding of property.*

If the province holds the land for future development like any other developer it has to accept a certain amount of risk in the marketing process. In

the face of declining demand it will have to compete with other developers for a market share as not all the land can be used for social or innovative purposes. Marketing and development expertise is a prerequisite for reducing this risk and Manitoba Housing does not have a good track record in this respect.

Much of the land in South West Fort Garry is several years from development. In the face of declining demand, holding costs on this land may continue to escalate faster than value and outstrip any profit that could be realized by future development. Sale of the property now would minimize this risk.

(ii) Sale of the property is not likely to subject consumers to more difficult market circumstances or higher prices.

Many suggest that land price increases are to a large extent caused by "monopolistic developers" who withhold lots, fix prices, rig markets and take excessive profits. They use this rationale to justify public involvement in the land development industry. There is little evidence to support this contention in the Winnipeg context. Public land was never made available in the 1970s, the first public lots were made available in the early 1980s when Winnipeg was in the grips of a recession. Even so, prices did not escalate any more rapidly in Winnipeg than in other centres. Therefore sale of the property to private developers is not likely to subject consumers to difficult market circumstances.

(iii) Sale of the property to private developers, if handled in a judicial manner, will not result in a monopolistic situation for one or two developers.

Analysis suggests that there is no shortage of developable land in the short term in suburban Winnipeg. Although the development industry is dominated by a few major players there is not the degree of concentration that suggests a monopoly situation. Four major developers: Qualico, Metropolitan Properties, Genstar and Ladco control close to 60% of the activity but each controls roughly the same amount of land. Over 30% of the land is controlled by smaller

developers that can effectively take advantage of opportunities in the market place and keep the larger developers competitive.

If the land is sold, provisions of sale should ensure that small as well as large builders can participate and that not all the property is purchased by one developer.

b) Disadvantages

(i) *The province would lose a land base that could in some instances be used for social housing purposes or provisions of innovative housing options.*

The private sector provides adequate options for most sectors of the market place including first time buyers but it does not provide housing for low income people nor is it likely to provide innovative options, for example new options for moderate and higher income seniors.

It could be argued, however, that purchasing property from the private sector will always be an option available to support these activities. Manitoba Housing has used this route successfully in the past to accommodate social housing projects.

(ii) *Selling the property to private developers would remove one of the tools the province has to control the direction of urban growth and affect certain planning principles.*

This is a disadvantage but planning objectives and the direction of growth can be controlled by long term development plans regardless of land ownership. Public ownership of the land base or a significant portion of the land base may make achieving objectives easier but it is not essential.

(iii) *The sell option may result in significant losses and the need for write offs.*

Sale of the Meadows West, Bruce Road and Fraipoint properties may generate profit as they are close to development. However sale prices of other parcels in

these areas and particularly the Fort Garry property, which are further from development, may be less than book value. The value of land is enhanced during development and little revenue can be generated by the sale of raw land.

SUMMARY

In summary, if the province pursues the "sell option" the sale of land held by Manitoba Housing is not likely to adversely affect the market, lead to price escalation or result in monopolistic development. With exception of the Fort Garry Area the amount of the land held by Manitoba Housing is not sufficient to play an effective role in moderating overall price levels in the City. Sale of the property, however, may moderately limit the province's ability to provide social and innovative housing options and control the direction of urban growth. As well, sale of all the property would not necessarily result in a profit but it would reduce the risks associated with development and longer term holding of the property.

2) Hold and Develop for Sale to the General Market

Under this option Manitoba Housing would hold selected parcels as depicted in Table 1. The time frame from now to development on these particular parcels is reasonable.

a) Advantages

- (i) *Development of some parcels could generate substantial profit*

Provided development of the parcels is timely and takes advantage of proper market circumstances and is done effectively and efficiently a sizeable profit would be realized. Estimated profits on the Meadows West and Bruce Road properties, should Manitoba Housing develop and market the land itself, range from \$10,000,000 to \$20,000,000 depending on lot size. Development of the Fraipoint property would also likely generate a profit.

**TABLE 1
MANITOBA HOUSING LAND INVENTORY**

NAME	PARCEL SIZE (ACRES)	URBAN LIMIT LINE STATUS	TIME TO DEVELOP	RECOMMENDATION
Northwest				
Dieter	114.00	Inside	< 3	Hold
Subtotal	114.00			
Southeast				
Bruce Road	176.77	Inside	Immed.	Hold
Fraipoint	244.00	Inside	< 5	Hold
Subtotal	420.77			
Southwest				
A and M	20.00	Outside	Medium ¹	Hold
Aljac	357.00	Outside	Medium	Hold
Bate	422.00	Outside	Medium	Hold
Dewey	4.00	Outside	Medium	Hold
Elias	86.70	Outside	Medium	Hold
Gregorchuk	48.20	Outside	Medium	Hold
Lines Property	6.00	Outside	Medium	Hold
Lomar	312.20	Outside	Medium	Hold
Masson	12.60	Outside	Medium	Hold
Subtotal	1,268.70			
TOTAL	1,803.47			

Notes: 1. Medium refers to a period of five to fifteen years.

Holding costs on other parcels further from development, particularly those in South West Fort Garry, would reduce profits, so the possibility of generating revenue over and above costs is less likely.

The profit generated could be used to subsidize other activities of government, such as social housing in inner city areas.

(ii) The property could be used to cater to the needs of small builders and individuals.

Manitoba Housing would be able to play an effective role in providing lots to small non-integrated builders so they can compete in the market place as well as providing lots to individuals or families who wish to build their own homes. Larger integrated builders/developers are less likely to cater to the needs of this particular sector of the market place as they use most of the property they develop for their own building and sales activities.

(iii) Moderation of lot and housing prices in selected areas to make housing more affordable

Although Manitoba Housing property is not well placed to influence the entire market and lead to more moderate prices overall, specific areas may be impacted on a short term basis. The Bruce Road and Fraipoint properties would have a moderating effect on prices in the South East if the development of these properties is timely. Meadows West Stage II may not have the same effect in the North West.

With respect to South West Fort Garry, the size of the holding would give Manitoba Housing a controlling influence in the area over a period of years. The direction of City growth appears to be shifting clockwise from Northwest to Northeast and is now focussed in the Southeast. Within five to ten years, however, this shift should focus activity on the Fort Garry holdings. This land is accessible to a variety of activities and the market in this area has already been tested with successful development in Whyte Ridge. The controlling influence

Manitoba Housing will have in this area may help moderate prices on a long term basis in this area.

b) Disadvantages

- (i) *When holding land the public sector does not have the same advantages that accrue to a private developer.*

A public agency such as Manitoba Housing does not have the same advantages as a private developer in a land holding situation. Private developers can write off interest and tax charges against other income. Therefore, private developers can keep book values from rising as they do not have to add these expenses to the land cost on an annual basis. Manitoba Housing, however, has to add these costs to the book value as it cannot use the tax system as a private developer does. This increases the book value and continued accumulation often increases book values beyond market values (Table 2).

The only other option is to write off costs on an annual basis. This can lead to public criticism if costs are extensive. Annual write offs, however, are preferable to allowing costs to accumulate and dealing with much higher write offs after a period of years.

Because of this scenario raw land cannot be "expensed" and over time costs (book value) will generally exceed market value. This has a number of implications:

- 1) If Manitoba Housing pursues the sell option it will naturally lose money on many properties. Although the sell option is a loss option for many of the properties if the land is sold now it will mean lower losses than if the land is held and sold at a later date.
- 2) If Manitoba Housing holds the land for future development accumulated costs may wipe out much or all of the profit generation mentioned under point (2ai) in the advantages as well as reduce the province's effectiveness in moderating prices as mentioned in point (2aiii) as book values will continue to rise necessitating higher sales prices to cover costs.

TABLE 2. LAND HOLDINGS: THE PRIVATE VERSUS PUBLIC SCENARIO

CATEGORY	START OF YEAR							
	Zero	One	Two	Three	Four	Five	Six	Seven
Market Value ¹ \$	10,000	10,000	10,800	11,664	12,597	13,604	14,693	15,868
PRIVATE PURCHASE								
Land Value \$	10,000	10,000	10,800	11,664	12,597	13,604	14,693	15,868
Charges								
Taxes ² \$	350	400	450	500	550	600	650	700
Interest ³ \$	600	600	600	600	600	600	600	600
Write off \$	950	1000	1050	1100	1150	1200	1250	1300
PUBLIC PURCHASE								
Land Cost ⁴ \$ (Book Value)	10,000	10,900	11,900	12,950	14,050	15,200	16,400	17,650
Charges								
Taxes \$	350	400	450	500	550	600	650	700
Interest \$	600	600	600	600	600	600	600	600
Market Versus Book ⁵ \$	-	-900	-1100	-1286	-1453	-1596	-1707	-1782

Notes

- 1) Market value of the lot is increasing at 8% per annum.
- 2) Taxes increasing at \$50.00 per year.
- 3) Interest charges constant at \$600.00 per year.
- 4) Land costs (book value) equals land value in year zero plus charges in that year equals land costs or book value at beginning of year one.
- 5) Book value minus market value.

- (ii) *More moderate prices on public development may only result in windfall gains for initial purchasers.*

Because Manitoba Housing property is not well placed to influence the entire City market and moderate overall prices even if the Province was to develop and sell lots at prices less than local developers in a certain area this may only result in windfall gains to the initial purchasers in the area. If Manitoba Housing sold at prices below those of local developers without moderating the market as a whole initial purchasers could make windfall gains on resale of the unit. A large benefit would accrue to very few people as opposed to overall equity to consumers.

- (iii) *A large proportion of the land is outside the urban limit line*

Much of the property that Manitoba Housing continue to hold in South West Fort Garry is outside the urban limit line. Manitoba Housing would have to apply to have the line adjusted. This may create political problems on a number of fronts.

- a) the province could be accused of weakening the initiative to revitalize the inner city by promoting additional suburban development.
 - b) should the province extend the urban limit line to accommodate development of Manitoba Housing land it would weaken its position when trying to turn down other developers.
- (iv) *Additional property would have to be purchased before development could take place on some suburban holdings.*

If the Province decides to hold the land for future development consolidation will be required, particularly in the South West Fort Garry area. Small key parcels will have to be purchased before development can proceed. This creates a number of problems including:

- a) negotiating purchases may delay development, particularly if owners are reluctant to sell for reasonable prices;
- b) exorbitantly high prices may be necessary to encourage owners of these key parcels to sell; and,

c) high prices for these parcels will reduce the profit margin on development as a whole.

(v) *A substantial addition to Manitoba Housing's staff compliment would be required.*

Manitoba Housing would have to add significantly to its staff compliment to handle all the development. Profits may cover the cost of this additional staff but current increases in the public service are not popular with the tax paying public.

(vi) *Criticism of public involvement in an activity that has traditional belonged in the private sector.*

Manitoba Housing (the province) could be accused of involvement in another aspect of private market activity where government action is not necessary. Development for the market in general could be criticized on the basis that it does not respond to the needs of lower income households and involves tax payers money in providing housing only for moderate and higher income groups. As so many consumers in the future will be move up buyers with equity this criticism may well be justified.

SUMMARY

In summary, this could be a profitable option for the province, but politically it may be difficult justifying such a role. To adopt this position would not place Manitoba Housing in a monopoly situation so the government would not be subject to the same criticism it has received when it has moved into other areas of economic activity such as insurance. However, the role Manitoba Housing would play would not significantly moderate overall market prices. The province could be accused of involvement in an activity that does not really provide a social benefit or respond to the needs of low income people. As well, the profit is by no means a certainty. Development will involve risk and could result in losses.

3) Hold the Land and Develop for Innovative Housing Options

a) Advantages

- (i) *The province could play a role as instigator of innovative housing options.*

Manitoba Housing could use some parcels to develop innovative housing option for seniors, first time buyers, empty nesters and other segments of the market place.

The rationale to support such a policy option is the fact that the private sector, operating as it does in a conservative fashion to protect profits, is reluctant to take risks on new market approaches, particularly for groups like seniors. The private market tends to stick to a proven product, a product they are familiar with and one they know yields a profit margin.

With the changing demographic scenario and the growing number of elderly, particularly elderly with equity and moderate incomes, new housing options are necessary. The government with its greater financial capacity, ability to take risks and accept losses could play a role in instigating new options.

Using the land in this fashion, the government would not be viewed as invading the sanctuary of the private sector. The government would in all likelihood be viewed in the positive role of an instigator and catalyst for new ideas that, once proven, the private sector may be able to capitalize on.

b) Disadvantages

- (i) *Using the land for innovative housing options would reduce or eliminate the profit margin.*

If this is the policy option that is adopted it should be recognized that

- a) less land would have to be maintained as part of the holdings. More of the Fort Gary land could be sold as well as part of the property in South St. Vital.
- b) the profit margin realized by developing for the general market would be substantially reduced if not eliminated entirely. Innovative options

require greater front end funding for planning and design, more money must be spent on marketing and options may require more open space, institutional land uses, amenities, etc., particularly if the target group were senior citizens.

SUMMARY

In summary, this may be a positive policy approach for the province but it may not create the profits that development for the general market would provide.

4) Hold the Land and Develop for Social Housing

Public land has often been used to accommodate social housing and this possibility has to be considered when reviewing options for property owned by Manitoba Housing.

a) Advantages

- (i) *A secure land supply.*

The province would not have to rely on purchasing property from the private sector to accommodate social housing needs. It must be acknowledged, however, that Manitoba Housing has not had difficulty purchasing private suburban parcels for social housing in the past.

b) Disadvantages

- (i) *Suburban area may not be the best location for social housing.*

Suburban areas are not always the best locations for social housing because:

- a) it may leave low income individuals far from work particularly as many low skilled jobs are in the inner city or industrial areas well removed from South St. Vital and South West Fort Garry. This can create problems for low income people if they do not have a car or have to rely on public transport.
- b) it may remove low income people from the service network they require which is often located in the inner city.
- c) there may be a greater negative reaction from surrounding residents than would be the case in older suburban areas.

It must be acknowledged, however, that social housing projects can be successful in a suburban context if they are located with care in relationship to services, particularly employment.

(ii) *Not all the property would be required for social housing.*

If the province pursues this option it should sell most of the property as social housing needs could be accommodated on substantially fewer acres than are currently available. A substantial portion of the South St. Vital and Fort Garry Land could be sold.

Developing a significant amount of social housing in a concentrated area may only concentrate a variety of social problems.

(iii) *Using the land for social housing would result in a substantial monetary loss.*

The province cannot expect to generate any profit if it pursues this particular option.

SUMMARY

In summary, although the province has a mandate and a responsibility to provide social housing, using the suburban land holdings exclusively in this fashion is not a viable option.

5) Joint Venture With Private Developers

a) Advantages

(i) *The government would be viewed in a positive manner for co-operating with the private sector.*

This provides Manitoba Housing with an option to cater to the general market without generating the criticism that the province is invading another area of private sector activity.

- (ii) *Joint venture would reduce the risk of loss.*

The risk associated with development and marketing would be reduced for Manitoba Housing. Under the terms of a joint venture agreement the developers would share the losses as well as the profits with Manitoba Housing.

- (iii) *Joint venture may generate a profit.*

It also provides an option that could generate a profit - at least on the Bruce Road and Meadows West Stage II properties. Profits could range from \$1.8 million to \$6.3 million depending on the number of lots developed.

- (iv) *Joint venture will provide land development expertise Manitoba Housing does not have.*

A joint venture with the private sector would relieve Manitoba Housing of most responsibilities associated with planning design, development and marketing and place these responsibilities in the hands of the private sector who have the necessary expertise. This may help reduce the risk of loss on development of the property.

- (v) *Joint venture may make it easier to deal with land outside the Urban Limit Line.*

Joint venture may be a more appropriate way of dealing with land outside the urban limit line as the developer could play a role in proceedings to have the line moved. This would reduce the political exposure of the province.

b) **Disadvantages**

- (i) *Loss of development control and client targeting.*

Manitoba Housing would not be able to control the type of development i.e. the target market group to the same extent although the terms of the joint venture could specify a range of lot sizes and prices which may help serve a wider range of market groups.

(ii) *Profits may be reduced or eliminated on land further from development.*

Some of the property that is several years from development would have to be held for some time before joint venture for developers would be attractive. This would reduce or eliminate the profit margin.

(iii) *Innovative and social housing objectives would not be realized.*

Although Manitoba Housing may be able to control the type of development to a certain extent the joint venture approach will not achieve social housing or innovative housing objectives. Building social housing objectives into a joint venture approach may dissuade private developers from entering a joint venture arrangement. If developers do enter a joint venture under such an arrangement very strict policing and monitoring would be necessary to ensure objectives are achieved. This would increase public administrative expenses and likely criticism of the government.

SUMMARY

In summary, this option has revenue potential for the province without the risks involved in developing the land directly. However, it would not provide the possibility for innovative or social initiatives the government may want to address.

6) Sell the Property to Manitoba Properties Incorporated

The property could be sold, or turned over at book value to Manitoba Properties Incorporated. MPI has the capacity to use the tax system to write off carrying costs of land holdings as would a private developer. This would reduce the need for ongoing write offs. However, at present, MPI is interested only in revenue generating properties. Given its current assets and cash flow situation MPI has nothing against which it could write off the losses accruing on suburban properties. Even if MPI could take advantage of the write offs beyond this aspect there are few other advantages as MPI would

- a) not have the expertise required to develop the land. In fact, they probably have less expertise than Manitoba Housing in this area. Manitoba Housing would have to act as an agent of MPI in handling development.
- b) face the same risks as Manitoba Housing in the variety of options discussed
- c) not remove the land from public (government) involvement; and

Table 3 summarizes the advantages and disadvantages of each option.

DEADLINE

The proposal by NWC Development Corporation was open for acceptance only until January, 1988. Although they have extended this date considerable pressure is being exerted to have the province make a decision. A decision is needed quickly to prevent further political pressure and embarrassment.

Table 3

SUMMARY TABLE OF OPTIONS FOR SUBURBAN LAND HOLDINGS

OPTION	ADVANTAGES	DISADVANTAGES	FISCAL PROGNOSIS
1) Sell the Property to Private Developers	<ul style="list-style-type: none"> - removes the province from risk associated with development - will not result in hardship for consumers - will not create a monopolistic situation amongst developers 	<ul style="list-style-type: none"> - would not respond to social or innovative housing objectives - would weaken provincial control of the direction of urban growth - may weaken certain planning principles the province wants to achieve 	<ul style="list-style-type: none"> - may not result in a profit. The value of land is in development, not sale of raw property
2) Hold and Develop for the General Market	<ul style="list-style-type: none"> - some parcels could generate substantial profit - would cater to the needs of smaller builders - may moderate lot prices in selected areas 	<ul style="list-style-type: none"> - holding costs will continue to mount and may eliminate any possibility of profit on many parcels - moderating prices in some areas may provide windfall gains for initial purchases when they sell - land outside the urban limit line would be a political problem for the province - additional property would have to be purchased in some areas to permit development - criticism of public involvement in a private sector activity 	<ul style="list-style-type: none"> - profit is a strong possibility on several parcels (Bruce Road, Fraipoint, Dieter) but by no means a certainty on other parcels
3) Hold the Land and Develop for Innovative Housing	<ul style="list-style-type: none"> - positive provincial role as instigator of new housing options 	<ul style="list-style-type: none"> - would reduce or eliminate profit margin - would not utilize all the property held 	<ul style="list-style-type: none"> - could result in substantial losses but it is at best a break even situation

OPTION	ADVANTAGES	DISADVANTAGES	FISCAL PROGNOSIS
4) Hold the Land and Develop for Social Housing	<ul style="list-style-type: none"> - provides a secure land supply for social housing 	<ul style="list-style-type: none"> - suburban areas are not always a good location for social housing - would not utilize all the property held 	<ul style="list-style-type: none"> - would result in substantial losses
5) Joint Venture with Private Developers	<ul style="list-style-type: none"> - co-operation with the private sector would be positive - would reduce the risk of loss - may generate a profit - would provide the province with private sector expertise - may make it easier to deal with land outside the urban limit line 	<ul style="list-style-type: none"> - the province loses development control and client targeting - profits on land further from development may be reduced or eliminated - would not respond to innovative or social housing needs 	<ul style="list-style-type: none"> - there is revenue potential on parcels in the path of immediate development (Bruce Road, Fraipoint, Dieter)
6) Sell the Property to Manitoba Properties Incorporated	<ul style="list-style-type: none"> - MPI has the same tax advantage as a private developer 	<ul style="list-style-type: none"> - MPI does not have the necessary expertise - would not remove the land from public involvement - MPI currently does not have the cash flow to utilize write offs 	<ul style="list-style-type: none"> - depends on the option chosen by MPI

RECOMMENDATION

The sell option would be the best approach on a long term basis. Although it may reduce, in fact eliminate any profit on a short term basis it will reduce the longer term risk and perhaps even losses associated with continued holding.

If the province is determined to maintain those holdings that are reasonably placed it need not approve, in fact should not approve one particular option. The policy approach should encompass a variety of options depending on the parcel.

It is recommended that

- a) the Meadows West Stage II property be developed by Manitoba Housing for moderate income market housing. Housing at the lower end of the market may be more appropriate in this area. Innovative and social housing objectives could also be pursued in this area.
- b) most of the property in South St. Vital could be sold or as an alternative joint ventured with the private sector. Small amounts of property could be held for innovative or social housing objectives.
- c) the Fort Garry land is too far from development to make specific recommendations. If the property is held by the province the alternatives possible should be evaluated closer to the time of development when market circumstances are easier to assess.

Pursuing a variety of options on different parcels will enhance the role of the private sector through the joint ventures and at the same time the government will be viewed as responding to a social need and providing a service or function that the private sector cannot or will not provide. This is a function the public views as a legitimate role for the government. As well, this combination of options holds the possibility for a break even position or perhaps even a small surplus situation.