

# Laneway houses can affect some home values in Vancouver, but only in the west side, UBC study finds

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Laneway houses in Vancouver on Dec. 17, 2021.

DARRYL DYCK/THE GLOBE AND MAIL

When Rory O’Flynn started building laneway houses in Vancouver soon after they were first permitted in 2009, his crews had a particularly hard time when they built near Jericho Beach or the University of B.C. – two high-end west-side neighbourhoods.

“There was a lot of confrontation. They would treat you like some kind of streetworker. So I said, ‘We won’t go out there any more,’” said Mr. O’Flynn, the owner of TSL Homes Ltd.

Instead, he stuck to the Main and Cambie Street areas, where “people were warm and fuzzy – they’re talking to our workers.”

That difference in how people in different neighbourhoods think about laneway houses – the popular infill form of housing that Vancouver has become a North American leader in – was underscored in a recent academic study from UBC’s Sauder School of Business published in the Journal of Urban Economics.

Released in November, the study attracted a lot of press and local attention, since it provided additional information about the role that’s being played in the city by increasingly numerous but still novel laneway homes. Such homes, which are built at the backs of single-family yards in sizes from 600 to 1,200 square feet depending on the dimensions of the lot, account for about 5,000 applications to the city since they were legalized in 2009. Homes with laneway houses now account for 4 per cent of all sales in Vancouver, up from 1 per cent five years ago.

In looking at data about laneway homes and house sales near them between 2012 and 2017, the academic research found that laneway houses had no effect on the eventual sale prices of homes in most of Vancouver.

But in west-side neighbourhoods with more expensive homes, there could be significant differences, with homes within 100 metres of a lot with a laneway house selling for as much as 5 per cent lower than a similar house nearby that had no laneway home in the vicinity.

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The researchers determined that laneway homes decreased neighbouring property values in more affluent areas because people may be concerned the additional density will put more

pressure on amenities such as parking and schools, while others don't like the fact that laneway homes tend to look into their backyards, which they believe may limit the enjoyment of their outdoor spaces.

"There seemed to be more willingness to pay to avoid the intrusion on privacy," said Thomas Davidoff, one of the two University of B.C. professors who did the study, along with a colleague from Simon Fraser University.

Prof. Davidoff said the study results indicated that the city should perhaps expend less effort on trying to insert "missing middle" housing to those kinds of neighbourhoods, since it was affecting property values.

But others familiar with laneway homes – real estate agents, builders and owners – say that they have some doubts about whether that effect still holds true. And, even if it does, it could be a positive one.

"It's remarkable that they've been able to find a social cure for the rapid rise of housing costs," Jake Fry, the founder of Smallworks, the company that championed the idea of laneway houses, said jokingly.

On a more serious note, he added that the idea embedded in the study that it's a bad thing to reduce the value of housing in upscale neighbourhoods betrays a perspective that not everyone shares.

"When you get this type of discourse, it shows how much the consolidation of wealth is acting against community-building."

Beyond that, he and many others say that the negative perceptions of laneway homes is something that seems to have evaporated everywhere, even on the west side.

That's something that University of B.C. sociology professor Guy Stecklov found when he had a laneway home built behind his house near 20th Avenue and Wallace Street.

"I haven't had anybody complain. We've had no reaction," said Prof. Stecklov, who had the house built recently from a year and a half ago for his mother. "In a lot of cases, it's turning an old lot into something more attractive." He's hoping for even more so that the laneways will become engaging mini-streets, rather than garbage-filled alleys.

Realtor Marty Pospichil, whose agency sells homes all over town, said he's seen no price differential for a property near another lot with a laneway house. In fact, on the west side, where lots are larger, laneway homes are less noticeable than on the east side, he said.

Greg Birch, whose company Silvercrest Custom Homes began including laneway homes in its portfolio as of 2015, said he's found that people are very receptive to them in their neighbourhoods.

"I haven't had any abuse – I had people come out and ask me about the pricing," Mr. Birch said.

If there's a question that people have about laneway homes, it's whether building one will affect their property values and financial well-being.

Prof. Davidoff said the research shows that building a laneway house pays for itself on the east side – through an increased price when the property sells – but doesn't on the west side. There, people who want the whole yard to themselves will pay as much for that as another buyer will for a house with a laneway.

Mr. Pospichil said his sales records show that houses with laneway homes sell for more than comparable ones without, "but the added value is less than the cost of building."

The Real Estate Board of Greater Vancouver hasn't done any analysis on the effects of laneway homes, except to track what proportion of total sales they represent.

But builders firmly believe there is a healthy financial return. They say that a property that adds a laneway home will see an increase in its eventual sale price that exceeds the construction cost.

The financial benefits can start even before the sale. One laneway home Mr. Birch built, in the Dunbar area, is pulling in \$3,100 in rent for the owner of the main house – a healthy return on the approximately \$350,000-plus-GST cost of construction. (Almost all laneway homes in Vancouver are rentals – because that's all the city would allow originally, wanting to provide additional rental stock rather than more purchase options.)

TSL Homes' Mr. O'Flynn is also an ardent believer in the value of laneway homes. For the \$350,00 to \$450,000 a laneway house costs to build, the rent that can be charged is significantly more than the mortgage payments on that investment.

“And that’s an investment that will never go sideways – it will always go up,” he said.

In spite of that potential, his company stopped building laneway houses two years ago because the city’s permitting system was bogged down to the point that he couldn’t deal with it any more, Mr. O’Flynn said.

That appears to be a common sentiment within the sector, as building permits for laneway homes have dropped from a high of 736 in 2018, to just 293 in 2021 (as of mid-December).

But there is still a steady stream of interest, partly because many people get them built not strictly for financial reasons, but to help with housing for either parents or children.

In spite of that, owners looking to build laneway homes are not in the majority, realtor Mr. Pospischil says.

“It’s not common in Vancouver. The laneway is great for people who want that, but what per cent of buyers are in that category? Most people purchasing a home want the outdoor space.”

**Editor’s note:** An earlier version of this article included an incorrect spelling for Guy Stecklov.

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