

## REMEDIATION STANDARD FOR LEGAL AND ILLEGAL SUBSTANCE AFFECTED PROPERTIES

### Issue

Currently, due to a lack of standardized remediation schedule deemed universally acceptable to lenders and insurers, if a home or commercial property has been identified as having been used to cultivate or manufacture drugs - illegal or otherwise- it would not be financeable by a mainstream conventional mortgage. \* Compounding these problems, a lack of standard makes it increasingly difficult or costly to insure affected properties. \*\* In some cases, this makes alternative financing altogether cost prohibitive. Canadian law enforcement estimates that there are presently over 50,000 illegal grow operations active across Canada. In 2014, Health Canada licenses issued for Personal Use (PUPL) and Designated Personal Use (DPPL) exceeded 57,799 Canada-wide. It is projected that there will be over 443,699 personal grow operations operating from coast to coast by 2024, ergo, an overwhelming number of private dwellings will re-enter the market as stigmatized properties. It is reasonable to say that a lack of acceptable standard poses a substantial risk to the financeability of a vast segment of residential housing stock across Canada.

Although much attention recently has been paid to the real estate markets in the Greater Vancouver and the Toronto areas, remediation is a Canada-wide issue. Non-financeable homes pose diverse difficulties throughout various parts of Canada.

For example: in Quesnel, BC and other similar remote regions around the country, where housing demand is not as high, homes identified as grow-ops are often being left abandoned and are unable to be re-introduced in the housing supply as few financial institution or insurance companies will finance the properties. In areas such as Mission, BC, which has traditionally attracted new homebuyers with affordable homes as an extended suburb of the Metro Vancouver region, their community had 583 PUPL and 73 DPPL licenses, and an additional 671 ATP (Authorize to Possess) licenses covering a population of approximately 34,000 residents, spanning between 15,000-18,000 residential homes. The amount of homes used for the cultivation of legal and illegal substances has decreased the stock of mortgageable properties, making it increasingly difficult for home-seekers to make a purchase. Only those buyers willing to take the risk of buying in cash or with very high interest rate mortgages (if available) are able to access these properties. Due to the limited available buyers who could purchase in cash or qualify for very high risk financing, many of these homes will sell for a reduced market value, ultimately affecting the housing stock values of the area. (Ref: <http://www.mission.ca/municipal-hall/departments/economic-development/community-profile/housing-market/>).

As an alarming secondary concern at the national-level, affected homes cannot be sold and reintroduced into the housing stock legitimately (with full-remediation.) These properties have the potential to be sold privately - perhaps to unsuspecting buyers - after the seller has done some marginal repairs to the home. This problem is not only affecting the current availability of homes, but is also an ongoing public safety concern, since no standardized schedule of remediation exists to ensure quality and compliance.

### **Background research to illustrate the problem:**

*\* "RBC Financial will not enter into any credit deals that have been deemed as current or previous operation (illegal substances)". "Even if the Structure is torn down, the property remains tagged and we still do not fund these credit deals" - Kathleen Haydu, Branch Manager, RBC Financial*

*\* "If we (TD Bank) know about the issue (former or current illegal substance operations) at the start of our interview process, we don't proceed with the application." -Bruce Murray, Branch Manager, TD Bank*

*\* "All chartered banks and most single stream mortgage lenders will not finance former illegal substance operations such as grow-ops." "In most cases with alternate financing, more than a 50 percent down payment is required and some level of underwriting is required." - Doug Lifford Mortgage Services.*

*\*\* "I (Johnston Meier Insurance) have one regular homeowners market that will insure a former grow op." "No matter how long ago they require Current Air Quality testing provided by a qualified contractor with CGL in place, current Electrical passed permit by someone with a CGL in place and current personal inspection by the broker, no matter how long since the grow-op." -Gloria Allinson, JM Insurance Group*

*\*\* "In Niagara Falls and I'm throughout Canada, Realtors are selling homes that have been used as grow-ops. The buyer is not aware because the Realtor is not telling him. Nor is the lender aware, since money for the mortgage would not be available if they were. For insured mortgages, CMHC and GE will not insure homes that were previously used for grow-ops even if they have been remediated. So, the only way to get financing is not to tell the buyer or the bank." - Charles Woods, Broker, Sunshine Realty Corp*

*\*\*"This has far-reaching implications for the property's future marketability, habitation, ability to obtain a mortgage and insurance. As a property owner, you could tear down the house and build an entirely new structure – and the search of deleted instruments will still indicate that it once was a grow-op." - Blair Drummie, Toronto Real Estate Lawyer*

While this problem challenging our housing stock has received limited attention from a few individual municipalities across the country, those organizations that are directly involved in the housing industry such as the Canadian Real Estate Association (CREA), Canadian Association of Accredited Mortgage Professionals (CAAMP), Insurance Bureau of Canada (IBC) and Canadian Homebuilders Association have been actively advocating for federal government intervention. In a concentrated effort to combat illegal property activity, CHBA has actively lobbied the Federal Government for policy reform measures, which would protect consumers, builders and industry affiliates. On a provincial level, the Ontario Real Estate Association (OREA) has actively conducted research, commissioned polls and lobbied their provincial government for intervention, and creation of the Clandestine Drug Operation Prevention Act.

To date, there remains no consistent or universal policy which will satisfy the needs of potential buyers, financial institutions or insurers in any meaningful way. Pending changes to marijuana laws currently before government could lead to more personal grow-ups in homes. This highlights the increasing importance of having clear federal guidelines to address remediation, so that affected homes in the Metro Vancouver and Greater Toronto regions are not lost to the market, thus exacerbating the affordability crisis in these two regions, or any market where supply is tight relative to demand.

We believe that the only way to sufficiently address this situation is for the Government of Canada to take a lead role in developing the necessary standards. Exemplifying an instance of governmental standardization, the Alberta Provincial Government has shown excellent leadership specific to this concern. Prior to the last Alberta provincial election, the Grow-Op Free Alberta Final Recommendations Report was adopted in 2014, and contained 37 recommendations that encompass health, safety and remediation challenges residential grow operations pose to current inhabitants, potential buyers and the community and province as a whole. The Federal Government could certainly use these recommendations as a firm starting point.

Recently this policy received unanimous support, and was passed at the BC Chamber AGM in May 2016. Interest from other provinces & territories has come forward including NWT, Ontario and Alberta.

**Recommendations:**

That the Federal Government:

- 1.) Develop a comprehensive remediation standard to secure the conventionally available housing stock affected by legal and illegal manufacture and/or cultivation of substances, which will satisfy the needs of the industries affected including the real estate, financial, insurance and construction related industries and the clients they serve.

**SUBMITTED BY THE MISSION REGIONAL CHAMBER OF COMMERCE AND QUESNEL & DISTRICT CHAMBER OF COMMERCE**

**Supported by: Upper Ottawa Valley Chamber of Commerce, Abbotsford Chamber of Commerce, Squamish Chamber of Commerce, Terrace and District Chamber of Commerce**