

B U I L D I N G B C



Homeowner
Protection Office

2001

2002

Annual Report



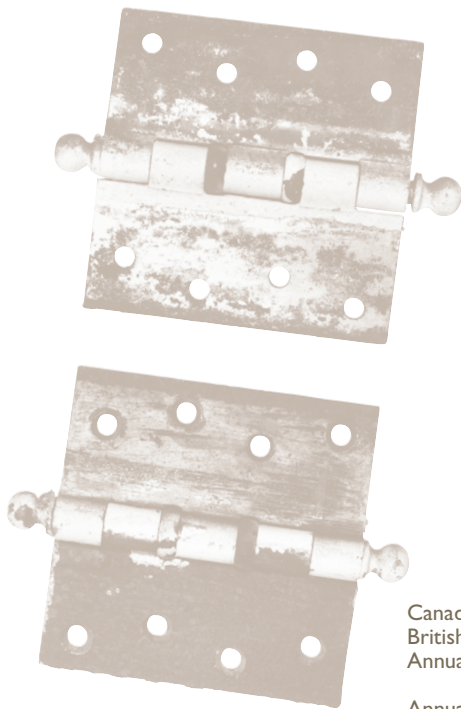
R E S T O R I N G C O N F I D E N C E

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Canadian Cataloguing in Publication Data
British Columbia. Homeowner Protection Office.
Annual report. – 2001/02-

Annual.
Report year ends Mar. 31.
ISSN 1488-3996 = Annual report - British Columbia.
Homeowner Protection Office

1. Home ownership - Government policy - British
Columbia - Periodicals. 2. Consumer protection -
British Columbia - Periodicals. I. Title.

HD7287.82.C32B73 353.5'5'0971105 C99-960237-3

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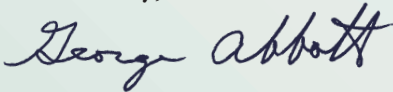
Second photo on cover courtesy of HouseWorks Building Science Inc.

May 21, 2002

The Honourable Iona Campagnolo
Lieutenant-Governor of the Province of British Columbia

As the Minister of Community, Aboriginal and Women's Services and the Minister Responsible for Housing it is my honour to present to you the fourth annual report of the Homeowner Protection Office covering the period of April 1, 2001 through March 31, 2002.

Sincerely,



George Abbott
Minister of Community, Aboriginal and Women's Services and
Minister Responsible for Housing

2001 / 2002

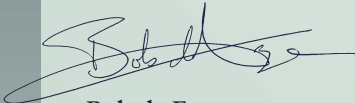
May 21, 2002

Honourable George Abbott
Minister of Community, Aboriginal and Women's Services and
Minister Responsible for Housing
Province of British Columbia

Minister,

It is my pleasure, as the Chairperson of the Homeowner Protection Office, to submit to you the HPO's annual report for the year ending March 31, 2002.

Sincerely,



Bob de Faye
Chairperson

The Homeowner Protection Office (HPO) continued to make notable progress this year in our mission to bring about a long-term improvement in the quality of residential construction, increase consumer protection for homeowners and help restore confidence in the residential construction industry.

Since the office's inception in 1998, we have more than achieved our research and education goal to facilitate and expand British Columbia focused research and education by using our investments to leverage substantial contributions from other partners. This year our financial commitments to research and education totaled about \$200,000 while our partners contributed an additional \$705,000 to these programs. Two of the most important of these projects include the very successful Building Envelope Research Symposium attended by 430 professionals and the much-anticipated Building Envelope Solutions Theory and Practice (BEST) course which provides hands-on training for the construction of building envelopes. Going forward, we will continue to find more ways to ensure that our research findings are put into practice through new training programs, the development of best practice guides and our participation on national building code committees.

This past year, mortgage rates fell to forty-year lows. Coupled with the depletion of the inventory of new homes, these low mortgage rates have brought about significant increases in new construction, particularly in the multi-unit sector. The HPO has witnessed heightened licensing activity during recent months and the outlook for the upcoming year is very good. We have continued to achieve our goal of having a responsive licensing system by providing our licensing decisions in fewer than five days. As well, both homebuyers and builders are well served by the five private-sector home warranty insurance providers that operate in the marketplace.

We continued to meet the demand for new no-interest repair loans which, for the first



achieving our
goals

Dan Maxwell,
Acting Chief
Executive Officer

time since the program started, has begun to decrease. We have passed the half-way mark in the repair of the estimated 65,000 leaky homes in British Columbia. We believe that 25,000 of these affected homes have yet to come forward. Over the past year, the up-take on the PST Relief Grant Program for completed building envelope renovations steadily continued as repairs were completed to more leaky homes.

As of the annual report date, March 31, 2002, the HPO had not gone through the provincial Core Services Review process. Therefore, the information contained in this annual report and financial statements indicate the status quo and do not reflect any service or delivery changes that may, or may not, transpire as a result of the decisions made by the Core Review and Deregulation Task Force chaired by the Premier.

Together with the residential construction industry, we look forward with some confidence to the start of a period of prolonged increases in housing starts. Consumers are once again prepared to purchase new homes and, in particular, condominiums now that they can see good quality construction that is combined with the strongest construction defect warranty in Canada.

Sincerely,

A handwritten signature in black ink that reads "Dan Maxwell". The signature is fluid and cursive, written over a white background.

Dan Maxwell
Acting Chief Executive Officer

Organizational Overview

The Homeowner Protection Office (HPO) is a provincial Crown corporation established under the *Homeowner Protection Act (Act)*. The *Act* was passed on July 28, 1998 in response to the need to introduce basic consumer protection legislation and regulatory improvements within the residential construction sector. The mandate of the HPO is to strengthen consumer protection for buyers of new homes and improve the quality of residential construction in British Columbia. The HPO is located in downtown Vancouver and officially opened on October 1, 1998.

The HPO is responsible for:

- Administering the residential builder and building envelope renovator licensing system province-wide
- Establishing the framework for and monitoring the mandatory, third-party home warranty insurance system
- Maintaining a research and education function to benefit the residential construction industry, homeowners and homebuyers, and
- Administering the Homeowner's Reconstruction Loan Program and PST Relief Grant for owners of leaky homes.

restoring
confidence



Strategic Foundation

The vision of the HPO is to be a responsive Crown corporation, leading an improvement in the quality of residential construction and an increase in homeowner protection in British Columbia. Our mission is to restore confidence in B.C.'s residential construction industry. Our values include a commitment to: integrity, fairness, responsiveness, accountability and teamwork.

Our Clients

Key clients of the HPO are homebuyers, homeowners (particularly owners of leaky homes), developers, residential builders and building envelope renovators. In undertaking its activities the HPO also works closely with homebuilding organizations, warranty insurance providers, architects, engineers, building officials, educational institutions, research organizations, property managers, the legal community, governments, including local governments and the Canada Mortgage and Housing Corporation (CMHC), real estate professionals and financial institutions.



Photo courtesy of
RDH Building Engineering Ltd.

in the residential construction
industry

**Minister of Community,
Aboriginal and Women's Services**

Board of Directors
 Bob de Faye, Deputy Minister,
 Ministry of Community, Aboriginal and
 Women's Services (Chair)
 Kaye Mellish, Assistant Deputy Minister,
 Ministry of Community, Aboriginal and
 Women's Services
 Shayne Ramsay, CEO, BC Housing

Acting Chief Executive Officer
 Dan Maxwell

Provincial Advisory Council*

overview

Director, Licensing and Registrar Bob Maling	Acting Director, Research and Education Bob Maling	Chief Operating Officer Dan Maxwell
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Key Responsibilities of HPO Officers



* The *Homeowner Protection Act* provides for the establishment of a Provincial Advisory Council (PAC) on Homeowner Protection, which was formed in 1999. PAC provides policy advice to the HPO CEO regarding residential construction in B.C., research and education initiatives, and consumer information programs. The 14-member council includes representatives from consumer groups, architects, engineers, builders and developers, home warranty insurance companies, labour and local governments. PAC members represent the following organizations:

Architectural Institute of B.C.	City of Vancouver
B.C. Construction Association	Home Warranty Insurance Company
Union of British Columbia Municipalities	Urban Development Institute
Canadian Home Builders' Association of B.C.	Building Officials Association of B.C.
Association of Professional Engineers and Geoscientists	Independent Contractors and Businesses Association of B.C.
Condominium Home Owners' Association – 2 representatives	B.C. Federation of Labour – 2 representatives
	• International Union of Painters
	• Allied Trades and United Association of Plumbers and Pipefitters

Provincial Advisory Council

Year in Review

The HPO is responsible for licensing residential builders, research and education programs to benefit the industry and consumers, and providing financial assistance to owners of leaky homes. These programs are delivered with a staff of 37 employees. With the exception of the loans program, the HPO continues to be self-sustaining on a year-over-year basis from its own revenues which primarily consist of builder license fees. For the loans program, the HPO will be self-sustaining over a 10 to 15 year period.

This year's Building Envelope Research Symposium and the Building Envelope Solutions Theory and Practice course helped ensure that the latest research results were transferred to those who can apply the knowledge on-site. Topics of research studies completed and underway included high-rise envelope performance, water penetration resistance of windows and earthquake testing of rainscreen stucco wall systems. Sharing the results of these studies facilitates the improvement of residential construction quality.

The number of residential builders licensed to construct new homes in British Columbia increased 25% over last year resulting in 2,881 licensed builders on the annual report date. This increase in licensing activity indicates optimism in the residential construction industry as existing housing inventories are sold and demand for new homes increases due to the lowest mortgage rates in forty years. Despite the 37% increase in residential construction, the number of owner-builder exemptions from licensing and home warranty insurance decreased by 18% to 2,060 when compared with last year. This is one of the positive results of increased HPO compliance efforts to limit abuse of this exemption.

The number of licensed building envelope renovators, however, remained stable at a healthy number of 74, which appears adequate to meet the demand. This year the HPO collected \$2.1 million in licensing fees from residential

builders and building envelope renovators that helped fund all program areas of the office.

The HPO's financial assistance programs for owners of leaky homes continued to prevent potential foreclosures which might have occurred due to the cost of building envelope repairs. This year, the HPO approved \$57.2 million in no-interest repair loans representing over 2,000 homes in British Columbia. This amount, although quite considerable, represents a decrease when compared with the previous year. The trend for the demand for new Homeowner's Reconstruction Loans shows a peak in 2000-2001. However, the need for the program is anticipated to continue as the remaining estimated 25,000 homes affected are repaired and homeowners with existing loans are served over time. During the last year, the HPO also participated in 116 on-site strata meetings representing 5,800 homes to educate homeowners about the financial assistance programs available.

PST Relief Grants approved by the office increased this fiscal year as more repairs to leaky homes were completed. Grants approved totaled \$2.2 million representing 5,644 homes.

Over the past year, the HPO continued to successfully deliver its programs and has met the targets set out on our recently released Service Plan. We have met the growing licensing needs, provided consistent service to owners of leaky homes and have made noteworthy progress in our research and education projects. Indications of increased consumer confidence and improved residential construction are becoming evident in the marketplace.

self-sustaining
on a year-to-year basis



Photo courtesy of
RDH Building Engineering Ltd.



Research and Education

The Homeowner Protection Office's (HPO) mandate includes a research and education function that assists both the residential construction industry and consumers. Research and education in the area of building science is undertaken to bring about the long-term goal of improving the quality of residential construction in British Columbia. Consumer related initiatives are also undertaken to help homebuyers make more informed purchasing decisions and owners of leaky homes better manage the repairs to their homes.

The Provincial Advisory Council on Homeowner Protection, a 14-member advisory board consisting of representatives from consumer groups, architects, engineers, builders and developers, home warranty insurance companies, labour and local governments, provides input on the research and education priorities of the HPO.

Strategic Shift

The beginning of 2002 marks a shift in the research and education focus at the HPO. Previously, the office primarily focused its attention on building envelope research and education; however, the HPO will now begin to devote a greater portion of its resources to issues related to home warranty insurance and improving residential construction quality. A decrease in attendance at our previously well-attended public Condominium Repair Process Seminars indicated that the saturation point for these was reached. Therefore, in recognition that leaky condos remain an important issue, the office will now rely on our on-going, evening, on-site strata meetings as the means to educate strata owners about the repair process and available financial assistance.

Research and Education for the Industry

This year the HPO had 11 building science research and education projects completed, on-going and underway (*see charts on pages 10 and 11*). These projects represent an HPO

financial commitment of about \$200,000. We partner with industry, other levels of government and educational institutions to leverage our research and education initiatives and ensure the most efficient use of available resources. We were successful in partnering with other organizations which resulted in a total commitment of \$905,000 to fund these building science projects which can lead to a long-term improvement in the quality of residential construction for British Columbia.

This year we were pleased to introduce two programs which facilitate the transfer of the most up-to-date building science knowledge to those who will use this information in the field.

The HPO, in partnership with the Canada Mortgage and Housing Corporation and the Canadian Home Builders' Association of B.C., developed the Building Envelope Solutions Theory and Practice (BEST) course. The course is currently being delivered by the British Columbia Institute of Technology and is designed to provide participants with more background knowledge on how durable building envelopes are constructed. Specifically, it offers practical knowledge and skills to build and restore wood-frame building envelopes.



The Building Envelope Solutions Theory and Practice Course is now offered at BCIT



Courses include: Building Science; Rain Penetration Control for Walls and Sheathings, Membranes and Flashings; Construction and/or Restoration of Building Envelopes to Resist Water Penetration plus many others.

In an effort to disseminate recent building science research results to the residential construction industry, the HPO with the Canada Mortgage and Housing Corporation, the Urban Development

Institute, the B.C. Building Envelope Council and the Building Envelope Research Consortium, organized B.C.'s first Building Envelope Research Symposium.



This symposium was attended by 430 residential construction industry representatives who can apply this new knowledge to the construction of new and remediated building envelopes. Topics included: the latest research results in high-rise building envelopes, quality assurance for developers and designers, and building envelope rehabilitation.

Consumer Education and Information

The HPO concluded its series of free public Condominium Repair Process Seminars this year. This program provided useful information on the process to repair a leaky condo, licensing and warranty insurance requirements for building envelope renovations, financial assistance available, technical information and legal considerations for over 1,400 people in the coastal climate area.

The HPO continues to participate in on-site strata meetings at individual leaky buildings as a means of providing information. Usually held in the evenings to accommodate the schedules of strata members, these meetings provide

personalized service to homeowners in need of assistance. This year, the HPO participated in 116 on-site strata meetings.

We also continue to offer several publications designed to assist both homebuyers and owners of leaky homes, including:

- *Options for Resolving Residential Construction Disputes* which provides homeowners and the residential construction industry with information on negotiation, mediation, arbitration and litigation.
- *Managing Major Repairs: A Condominium Owner's Manual* – The HPO, in cooperation with the former Ministry of Municipal Affairs and Canada Mortgage and Housing Corporation, produced this 100-page guide which provides condominium owners with step-by-step detailed information on the process to repair a leaking building. The Urban Development Institute and the Condominium Home Owners' Association also assisted in the development and review of the guide.
- *Buying a New Home: A Consumer Protection Guide* – This guide provides information and guidance to prospective buyers. Topics include information on home warranties, residential builder licensing, and the role of lawyers and lenders in transactions.
- Bulletins on a variety of topics are available including: home warranties, owner-built homes, the Reconstruction Loan and PST Relief Grant programs, and requirements for building envelope renovations.

In a continued effort to assist homeowners, homebuyers and other residential construction industry representatives, the HPO operates a toll-free information line. This year the HPO assisted 28,597 callers, totaling over 65,800 calls since the office opened in 1998. In addition the HPO's Web site also provides visitors with useful information about our programs.

consumer
information

Research and Education

Building Science Projects On-going and Underway April 1, 2001 – March 31, 2002

Project/Description	HPO Financial Contribution	Total Project Cost *	Partners	Status & Additional Info
Building Envelope Research Consortium (BERC) The HPO helps co-fund BERC and its research projects as well as participates on the steering committee.			Industry and government representatives	Ongoing
BETH Project (Building Envelope Test Hut) Phase II Feasibility Study This project involves carrying out more detailed planning for the establishment of a research test hut that would be useful in providing moisture management performance data for various cladding assemblies and details under real-life conditions.	\$15,000	\$60,000	British Columbia Institute of Technology (BCIT), Canada Mortgage and Housing Corporation (CMHC), Forintek	Underway
Building Envelope Research Bibliography The purpose is to gather relevant studies on building envelope research and produce an annotated bibliography.	\$10,000	\$10,000	University of British Columbia	Underway
Water Penetration Resistance of Windows The purpose is to review moisture performance issues related to windows in low-rise and high-rise buildings, addressing manufacturing, building design, installation, maintenance and regulatory standards.	\$10,000	\$125,000	Canada Mortgage and Housing Corporation (CMHC), BC Housing, National Research Council of Canada (NRC)	Underway
Earthquake Testing of Rainscreen Stucco Wall Systems for B.C. Residential Wood Frame Construction This project looks at the performance of a stucco rainscreen wall assembly in an earthquake situation with testing conducted at a seismic research facility at the University of British Columbia.	\$10,000	\$75,000	Canada Mortgage and Housing Corporation (CMHC), BC Housing	Underway. Preliminary findings and recommendations regarding attachment and fastening issues are included in CMHC's 2001 Best Practices Guide update.
Research Consortium for External Moisture Control: Defining Performance of Water Resistive Barriers This project involves studying various aspects of sheathing membrane (water resistive barrier) performance.	\$20,000	\$120,000	Canada Mortgage and Housing Corporation (CMHC), HAL Industries, Concordia University, Fortifiber Corporation, Dupont Inc.	Underway
Performance Monitoring of Rainscreen Wall Assemblies This project involves measuring and monitoring the performance of new and remediated rainscreen wall assemblies within low and high-rise residential buildings.	\$35,000	\$238,000	BC Housing, Canada Mortgage and Housing Corporation (CMHC)	Underway
List of Construction Programs The purpose is to compile a comprehensive list of construction programs and courses available by other organizations in the province.	In house	n/a	n/a	Underway. The HPO is working with organizations involved in training to establish Web site links to these organizations from the HPO Web site.
TOTAL	\$105,000	\$668,000		

* Total project cost may vary slightly.



Photo courtesy of RDH Building Engineering Ltd.

Research and Education

Completed Building Science Projects April 1, 2001 – March 31, 2002				
Project/Description	HPO Financial Contribution	Total Project Cost *	Partners	Status & Additional Info
Building Envelope Solutions: Theory and Practice (B.E.S.T. Practice) Formerly called the Builder's Toolbox, this course provides information to the building industry on the construction of durable wood frame buildings in B.C.'s coastal climate.	\$52,000	\$142,000	Canada Mortgage and Housing Corporation (CMHC), Canadian Home Builders' Association of BC (CHBA BC)	Completed. Courses began at BCIT in January 2002.
Study of High-rise Envelope Performance in the Coastal Climate of B.C. This study identifies factors contributing to envelope performance problems and successes in high-rise buildings, and provides recommendations for addressing identified issues.	\$32,500	\$75,000	Canada Mortgage and Housing Corporation (CMHC), City of Vancouver	Completed in October 2001.
Building Envelope Research Symposium B.C.'s first building envelope research symposium disseminated recent research results to the industry.	\$10,000 (seed funding)	\$20,000 (seed funding)	Canada Mortgage and Housing Corporation (CMHC), Urban Development Institute (UDI), BC Building Envelope Council (BC BEC), Building Envelope Research Consortium (BERC)	Completed in October 2001.
TOTAL	\$ 94,500	\$ 237,000	* Total project cost may vary slightly.	
TOTAL 2001-2002 Projects completed, on-going and underway	\$199,500	\$ 905,000		

Performance Measures and Report: as of March 31, 2002

Goals / Objectives	Performance Measures	Targets	2001-2002 Results
Research and education projects are planned and managed in partnership with the residential construction industry	HPO facilitates and expands research and education partnerships	At least twice the amount invested by the HPO is invested in these research projects by other partners	This year the HPO committed \$199,500 to building science research and education projects. Our partners committed an additional \$705,500 to these projects for a total financial commitment of \$905,000.
Industry and consumers have access to research results and improved technology	Research results disseminated	During each two-year cycle, the HPO participates in one major symposium or publication and twelve educational sessions	The HPO and its partners presented B.C.'s first Building Envelope Research Symposium in October 2001. The Building Envelope Solutions: Theory and Practice courses are also now available at BCIT.
Building science research projects will help set the framework for improvements in residential construction	Research results incorporated into building standards and best practices	HPO participates on National Building Code committees and in the development of best practice guides and training courses	The HPO's Acting Director of Research and Education participates on the following committees: <ul style="list-style-type: none"> • National Building Code Committee • National Building Code Standing Committee - Part 9, Housing and Small Buildings • National Building Code Standing Committee - Part 5, Environmental Separation • CHBA National Technical Research Committee • CHBA BC Education and Training Committee • CHBA BC Technical Research Committee

research results and improved technology



Photo courtesy of TBG Seismic Consultants Ltd.

Residential Builder Licensing and Home Warranty Insurance



Bob Maling, Director of Licensing and Registrar and Acting Director of Research and Education

Mandate

The Homeowner Protection Office (HPO) is responsible for licensing residential builders and building envelope renovators as well as monitoring the mandatory, third-party home warranty insurance system in British Columbia. These consumer protection measures help ensure that builders meet minimum standards and homebuyers province-wide are protected by a standard insurance product. Over the long-term, licensing and warranty insurance requirements will help prevent the likelihood of future, large-scale construction failures such as the leaky condo situation.

As of July 1, 1999, residential builders must be licensed by the HPO and arrange for home warranty insurance in order to obtain a building permit. In geographic areas where building permits are not required, licensing and warranty insurance must be in place prior to the commencement of construction. Similar regulations for repair contractor licensing and mandatory warranty insurance were brought into force for building envelope renovations on September 30, 2000. A registry of licensed residential builders and building envelope renovators is updated daily on the HPO Web site.

The mandatory home warranty insurance can only be provided by insurance companies which are approved by the provincial Financial Institutions Commission and meet the requirements of the *Homeowner Protection Act (Act)* and regulations. Currently, home warranties are offered by the following insurance companies:

- Commonwealth Insurance represented by Willis Canada *+
- Kingsway Insurance represented by Residential Warranty Insurance Services Ltd. *+
- London Guarantee Insurance Company *+
- Royal & SunAlliance represented by National Home Warranty Programs *
- Royal & SunAlliance represented by Marathon Warranty Corporation*+

* indicates the companies that offer home warranty insurance for new residential construction.

+ indicates the companies that offer home warranty insurance for building envelope renovations.

Minimum coverage and allowed specific exclusions for home warranty insurance are set by legislation. For new home construction, coverage must include two years on labour and materials, five years on the building envelope, including water penetration, and ten years on structure (2-5-10). Some insurance companies offer coverage above and beyond these minimum requirements.

home warranty insurance



Images courtesy of RDH Building Engineering Ltd.

For building envelope renovations subject to the *Homeowner Protection Act* regulations, minimum home warranty insurance coverage includes two years on labour and materials. If more than 60% of any wall is replaced, a five-year water penetration warranty is also provided. This two-tiered approach to warranty insurance allows for targeted repairs when appropriate.

In April 2001, enabling legislation was also passed which allowed the HPO to license strata managers. The development of this licensing system has been on hold pending the results of the provincial government's Core Services Review process.



Photo courtesy of
T&G Seismic Consultants Ltd.

Licensing and Warranty Insurance Activity

This year has brought increased optimism for the future of the residential construction industry. Attractive mortgage rates have both decreased the supply of the existing housing inventories as well as re-ignited the demand for housing starts.

As of the annual report date, there were 2,881 residential builders licensed with the HPO. This number represents an increase of 583 licences or 25% when compared to last year. Licence renewals continued to be strong over the last year. There were also 74 building envelope renovators licensed with the office on March 31, 2002.

This year's increase in the number of licences exceeded our forecasts. Even with this higher than anticipated level of licensing activity, we were 100% consistent in our goal to make

decisions on completed licensing applications within a five-day period. In fact, decisions for over 97% of all licensing applications were made in three days or less.

This year, 19,042 new homes were started. In total 38,862 new homes in the province of British Columbia now satisfy the consumer protection requirements of the *Homeowner Protection Act*.

Compliance Update

The Homeowner Protection Office added five more full-time compliance officers this year. This addition brought the total number of compliance officers who conduct on-site visits province-wide to nine, in addition to the compliance staff located at the HPO office in Vancouver. (*Please see the compliance territory map on page 14.*)

Our compliance investigations have resulted in 147 additional builders becoming licensed to voluntarily comply with the *Homeowner Protection Act*. These builders have enrolled 197 projects in warranty insurance and plan to enroll an additional 377 projects over the next fiscal year. Obtaining voluntary compliance with the *Act* is the quickest and preferred way to protect consumers and encourage fair competition in the residential construction industry.

Our increased compliance staff combined with a more stringent screening process of potential owner-builders has resulted in decreased abuse of the owner-builder exemption (which allows a person to build their own detached home for their own use without having to be licensed or purchase home warranty insurance for themselves). Owner-builder exemptions declined to 11% of all new home starts this year from about 18% in the previous year.

compliance staff

Homebuyer Awareness

The real estate market is still in a transition period. Some new homes on the market are constructed under the consumer protection regulations of the *Homeowner Protection Act*—built by a licensed residential builder and has the mandatory, third-party home warranty insurance. However, other homes built before these regulations were in place might have a variety of different warranties, or no warranties at all.

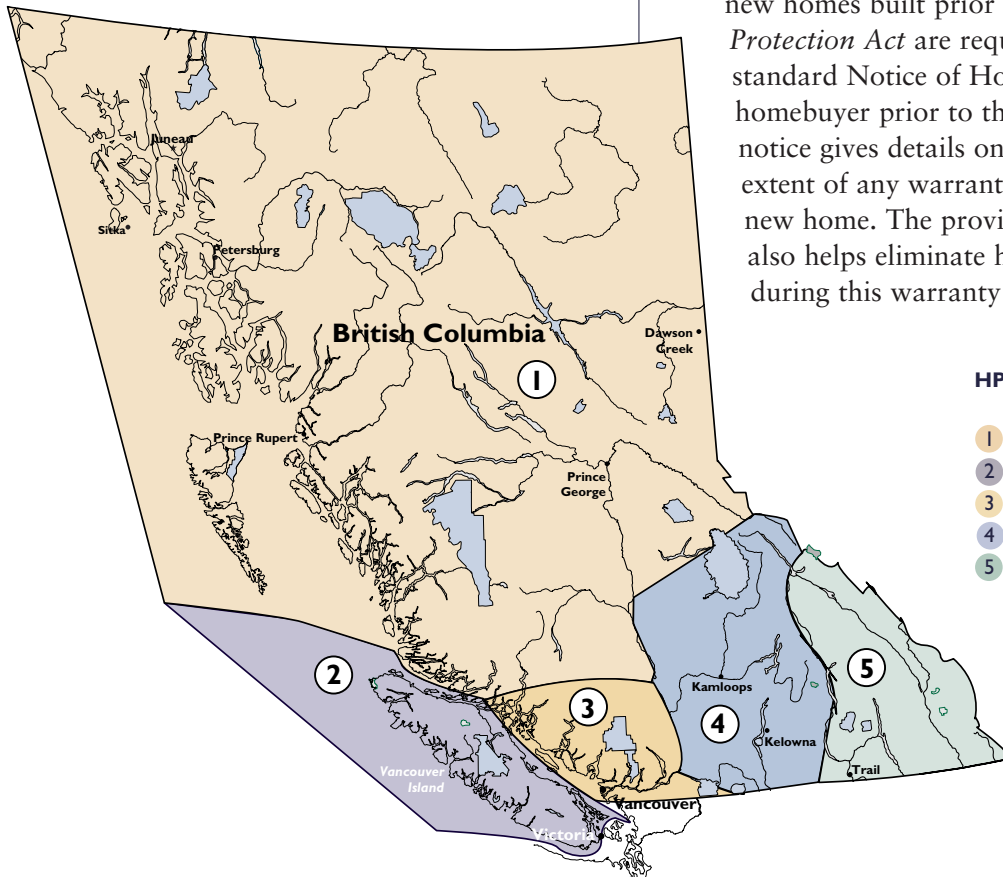
The HPO continues to assist homebuyers identify new homes that are built by Licensed Residential Builders and have the minimum 2-5-10 year home warranty insurance now required by law. Last year, the HPO introduced a standard 2-5-10 year logo which can only be used by Licensed Residential Builders who sign a logo licensing agreement with our office. Currently, there are 756 Licensed Residential Builders authorized to use this special logo.

Licensed Residential Builders use the 2-5-10 year logo to identify their new homes that meet the requirements of the *Homeowner Protection Act*. The HPO also commenced a province-wide advertising campaign to increase homebuyer awareness of the logo. We encourage homebuyers to look for the 2-5-10 logo. If they do not see it, they should ask if the builder is licensed by the HPO and if the home has warranty insurance provided by one of the insurance companies listed on page 12.



Homebuyers should look for the standard 2-5-10 year logo

The HPO also continues to enforce the Notice of Home Warranty regulation. Vendors of new homes built prior to the *Homeowner Protection Act* are required to provide a standard Notice of Home Warranty to the homebuyer prior to the purchase. This notice gives details on the nature and extent of any warranty provided on the new home. The provision of this notice also helps eliminate homebuyer confusion during this warranty transition period.



HPO compliance territories

- 1 Prince George and Area
- 2 Vancouver Island
- 3 Lower Mainland
- 4 Central Interior
- 5 Kootenays

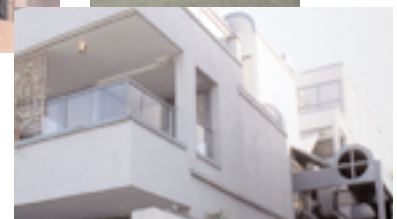
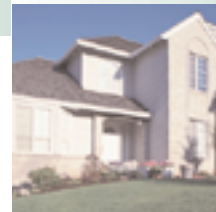


Residential Builder Licensing and Home Warranty Insurance

Residential Construction Stats: as of March 31, 2002			
	2002	2001	
Number of Licensed Residential Builders	2,881	2,298	
Number of Licensed Building Envelope Renovators	74	71	
New Home Starts:	2001-2002	2000-2001	Cumulative: July 1, 1999- March 31, 2002
Coastal Multi-Unit Dwelling (number of units) ¹	6,496	3,524	10,795
Other Dwellings (number of units) ²	9,793	7,018	20,082
Owner-Builder Exemptions	2,060	2,504	6,050
HPO Warranty Exemptions (multi-unit)	693	892	1,935
Total New Homes Under the Homeowner Protection Act	19,042	13,938	38,862
1. Units built in the coastal climate zone which attract a \$750 reconstruction fee and a \$25 HPO licensing fee. 2. Includes detached dwellings throughout B.C. as well as multi-unit dwellings outside of coastal climate zone, which attract only the \$25 per unit HPO licensing fee.			
Building Envelope Renovations (\$25/unit HPO licensing fee)	6,788	614	7,402

Performance Measures and Report: as of March 31, 2002			
Goal/Objective	Performance Measure	Target	2001-2002 Results
Homeowners are protected by warranty insurance on their homes	Homeowner satisfaction	High percentage of homeowners satisfied with protection provided by their warranty insurance	Baseline data to be collected in 2002-2003
Improvement in the quality of residential construction	Homes built under the Homeowner Protection Act are of good quality	Low percentage of homes with warranty insurance claims	Baseline data to be collected in 2002-2003
Creation of a more "level playing field" for residential builders	Residential builder compliance with the Homeowner Protection Act	70% of investigations result in voluntary compliance	Baseline data to be collected in 2002-2003
Responsive licensing system for residential builders and building envelope renovators	Timeliness of licensing decisions	5 business days for licensing decisions on complete applications	All licensing decisions were made in under 5 days. 97% of licensing decisions were made in 3 days or less.
Increased awareness of consumer protection issues	Homebuyer awareness of licensing and warranty insurance requirements	High level of awareness of licensing and warranty insurance program among new home buyers	Baseline data to be collected in 2002-2003

increased awareness
of consumer protection issues



The Homeowner Protection Office (HPO) provides financial assistance to owners of leaky homes in the form of the Homeowner's Reconstruction Loan and the PST Relief Grant.



Each owner's individual financial circumstances determine their eligibility for a no-interest loan.

Homeowner's Reconstruction Loan Program

The Homeowner's Reconstruction Loan Program was established to ensure that owners do not have to lose their homes due to the cost of building envelope repairs. This financial assistance program consists of a no-interest repair loan. The loan is available to owners of condominiums, townhouses, detached homes as well as housing co-operatives that are not able to finance or pay for the necessary repairs.

Most homeowners are eligible for the no-interest repair loan if they:

- own a leaky home where the building envelope has deteriorated sooner than expected
- do not have savings or investments that could be used to pay for repairs (Homeowners are not required to cash in their RRSPs, pension assets or the first \$10,000 in liquid assets to qualify. Seniors age 60 years or older can have \$250,000 in liquid assets and still qualify.), and
- do not have enough equity in their home to qualify for a conventional loan or they can not afford the monthly payment on conventional loan.

This year the HPO approved 1,584 homeowner loans representing \$43.6 million. Since the HPO's inception three and one-half years ago, 6,862 homeowner loans have been approved totaling \$158.6 million in financial assistance. The average loan amount is about \$23,100.

Over the year, the HPO also approved an additional six housing co-operative loans representing another 418 units totalling \$13.6 million in no-interest repair loans. Since 1999 when housing co-operatives became eligible for the Reconstruction Loan Program, 32 loans representing 1,848 homes and \$57.7 million in financial assistance has been approved.

In total to date, \$216.3 million in financial assistance has been approved for owners of 8,710 leaky homes (*see loan statistics on page 18*).

The loans cover both the cost of the repair and any related legal expenses. In most cases the homeowner's lending institution provides the principal on the loan. The HPO pays the interest on the loan to the lending institution on behalf of the owner. The homeowner makes monthly, principal-only payments on the loan to their lending institution. These payments are set at affordable levels by an HPO loans officer through individual consultations with the homeowner.

In some cases, the Homeowner's Reconstruction Loan minimum payment of \$50 is not affordable, in particular for seniors on fixed incomes. In these circumstances a deferred payment loan can be arranged which allows homeowners to receive the full amount required to repair their homes and they do not have to make payments of any kind for as long as they live in the home. Deferred payment loans represent 11% of homeowner loans approved by the HPO totaling over \$18 million in financial assistance.

preventing

foreclosures

repair solutions

Long-term Repair Solutions

To ensure that HPO Reconstruction Loan funds are used for appropriate long-term repair solutions, homeowners must prove that the proposed repair meets the requirements of the consumer protection regulations for building envelope renovations.

These repairs must be performed by an HPO licensed building envelope renovator who arranges for home warranty insurance on their work. Proof of licensing and warranty is confirmed by an HPO Building Envelope Renovation Schedule which is completed by a building envelope consultant and given to the owners prior to obtaining a building permit or commencing construction in geographic areas where building permits are not required.

Loan Program Funding

The provincial government provides bridge financing for the Reconstruction Loan Program. As of March 31, 2002, the HPO had borrowed \$23.2 million from the province for the program's current cash requirements. The HPO will repay this loan to the province through the collection of a \$750 levy on the construction of new multi-unit homes in the coastal climate area which includes the Lower Mainland, the southern part of Vancouver Island and the Sunshine Coast.

In 2000 the Government of Canada, through the Canada Mortgage and Housing Corporation, agreed to provide a contribution of \$27.7 million as the loan program incurs expenditures. Since 2000, the HPO has received \$16.3 million from the federal government for loans program expenditures. This federal contribution amounts to about 26% of the total program expenditures which are expected to reach \$108 million.

Peak Reached for Loans Applications

The HPO estimates that about 65,000 homes in B.C. have been affected by premature building envelope failure which involves a corresponding repair bill of \$1.5 billion.

This estimate takes into account that loan applications received from owners in high-rise buildings will likely take place later in the life of the loans program when compared to homes made with wood frame construction. This delay occurs because it takes longer for building envelope problems to emerge in high-rises (e.g. corrosion of steel studs) when compared to wood frame homes (e.g. wood rot).

The demand for new Reconstruction Loans hit a peak in 2000-2001 indicating that we have likely reached the halfway mark in the number of homeowners who will apply for no-interest repair loans over time (*see the Trends in Demand for New Reconstruction Loans and PST Relief Grants graph on page 19*). However, the HPO estimates that about 25,000 homes affected may have not yet commenced repairs on their homes. Therefore, the need for the Reconstruction Loan Program is expected to continue.

PST Relief Grant

The HPO administers a PST rebate on completed building envelope repairs. The PST Relief Grant is available to owners of condominiums, townhouses, detached homes and housing co-operatives. Eligible repairs are those completed on or after July 28, 1998, the date the *Homeowner Protection Act* was passed. Owners can also submit a PST Relief Grant application for completed phased repairs. Unlike the Homeowner's Reconstruction Loan Program, owners in strata-titled condominiums and housing co-operatives submit one application as a group.

This year, an additional 103 applications representing 5,644 homes were approved for PST Relief Grants totaling \$2.2 million.



Reconstruction Program

Since the PST Relief Grant was introduced in 1999, \$4.4 million dollars in grants to owners in 11,274 homes has been approved. The average grant per home is \$394.

Generally, about 40% of all building envelope repair costs are subject to PST which is now charged at a rate of 7.5%. Funds for the PST Relief Grant are provided by the provincial government. An estimated \$47 million in financial assistance will be provided to owners of leaky homes over the life of this program.

The increased number of PST Relief Grants approved each year indicates that more and more homeowners are completing their building envelope repairs. This situation is also an indication that the demand for the Reconstruction Loan Program might continue to decrease over time (see the Trends in Demand for New Reconstruction Loans and PST Relief Grant graph on page 19).

financial assistance programs

Homeowner's Reconstruction Loan Program: as of March 31, 2002				
Applications	2001-2002 Number	2000-2001 Number	Cumulative Totals 1998-2002 Number	% of Total*
Applications received	2,067	3,349	8,636	
Applications approved	1,584	2,958	6,862	79.5%
Applications not meeting eligibility criteria or withdrawn	559	626	1,594	18.5%

*About 2% of loans applications are pending decisions at any given time.

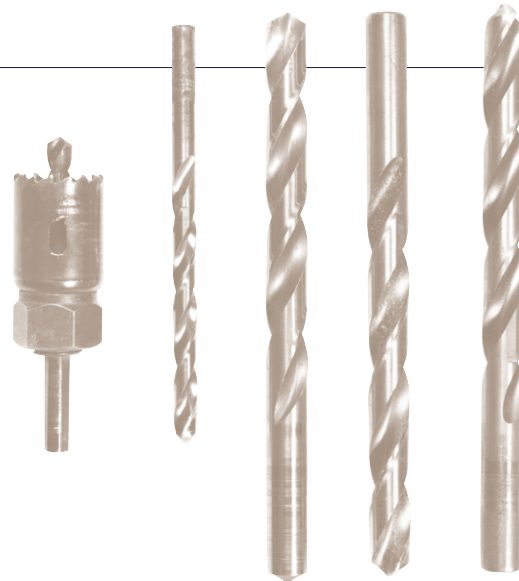
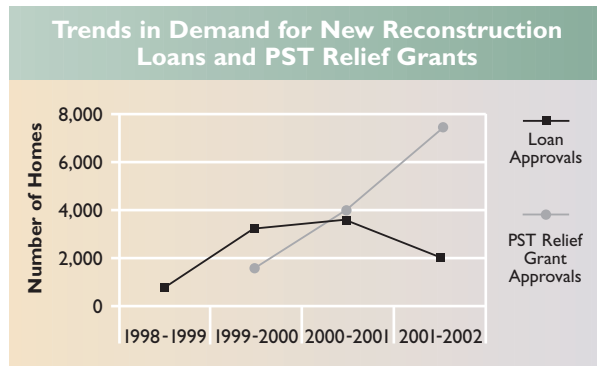
Approvals	2001-2002		2000-2001		Cumulative Totals 1998-2002		
	Number	Amount	Number	Amount	Number	Amount	Average/Unit
No-interest loans through first-mortgage lender	1,096	\$29,987,304	2,271	\$51,243,113	5,230	\$117,576,593	\$22,481
No-interest loans through the HPO	179	\$5,343,968	523	\$14,021,273	865	\$22,867,383	\$26,436
Deferred Payment Loans through the HPO	309	\$8,295,175	164	\$3,377,030	767	\$18,128,807	\$23,636
Total	1,584	\$43,626,447	2,958	\$68,641,416	6,862	\$158,572,783	\$23,109

Housing Co-operative Loan Approvals	2001-2002	2000-2001	Cumulative Totals 1999-2002	
	Number	Number	Number	Average per Co-op
Applications approved	6	11	32	\$1,804,269
Number of units represented	419	661	1,848	Average per Unit
Amount	\$13,637,900	\$18,214,000	\$57,736,600	\$31,243

demand for loans and grants



Reconstruction Program



PST Relief Grant Summary: as of March 31, 2002

Applications Received by Housing Type		1999-2002		
Condominium/Apartment		91%		
Townhouse		6.6%		
Single-family dwelling		0.7%		
Other		1.5%		
Applications Approved	2001-2002	2000-2001	Cumulative 1999-2002	
Number of applications approved	103	105	250	
Number of homes represented	5,644	3,930	11,274	
Amount Approved	2001-2002	2000-2001	Cumulative 1999-2002	
Total amount of approved grants	\$ 2,211,808	\$ 1,455,309	\$ 4,443,221	
Average grant amount per application			\$ 17,773	
Average grant per home			\$ 394	

Goal/Objective	Performance Measure	Target	2001-2002 Results
Provide financial assistance to help homeowners avoid foreclosures due to the cost of building envelope repairs	Homeowners with loans do not lose their homes	Default rate of 4% or less for homeowners with loans	Default rate is 0.8%
Value of homes will increase accordingly once homes are repaired	Assessed values of repaired homes increase	Assessed values of homes increase following completion of repairs	Baseline data to be collected in 2002-2003



Photo courtesy of RDH Building Engineering Ltd.

target
results

performance

Management Discussion and Analysis

For the year ended March 31, 2002, the HPO's net loss was \$483,000 as compared to its net income of \$62,000 in the previous year. However, when the results are considered excluding the Reconstruction Program, net income for the year ended March 31, 2002 was \$284,000. We have met our objective to be financially self-sustaining on a year-over-year basis, excluding the Reconstruction Loan Program.

During the year ended March 31, 2002 our license fees collected increased to \$2.1 million, a 32% increase over the previous year. Similarly, the collection of the Reconstruction Levy on the construction of multi-unit homes in B.C.'s coastal climate zone increased to \$4.9 million, which is an 84% increase over the previous year. This increase is a result of the significant growth in new home construction, in particular, in the multi-unit sector. In addition, the number of licensed residential builders has increased over the prior year.

Two of the main factors leading to the increases in housing starts and licensed builders were the depletion of inventory of new homes offered for sale and the lowest mortgage rates in forty years. The housing starts outlook for next year remains positive, particularly in the multi-unit sector which we expect will increase by 20% bringing total multi-unit starts to 8,400 homes in the coastal climate zone.

Reconstruction Program expenditures increased by 25% to a total of \$14.7 million. This increase was principally the result of a higher interest subsidy paid to financial institutions on behalf of owners of leaky homes and a higher loan grant expense from the funding of more loans. We believe the Reconstruction Program expenditures reached their peak this year and will now begin to decline as fewer new loan applications are received.

The PST Relief

Grant Program has continued to increase over 2001. The Office paid out \$2.2 million in PST Relief Grants as repairs on leaky homes were completed. This compares to \$1.5 million in PST Relief Grants that were paid out in the previous year. This increasing trend is expected to continue into next year as more of the leaky condos have their repairs completed.

The Research and Education program had expenditures of \$245,000 in the year ended March 31, 2002. This has decreased from the prior year when our expenditures were \$304,000. However, we have met our objective to leverage our contribution by having our partners invest at least twice the amount committed by the Homeowner Protection Office.

This year has been one of continued growth and demand for all programs as the residential construction sector begins to recover, new knowledge regarding construction quality is disseminated to the industry and more homes with premature building envelope failures are repaired.

discussion

and analysis



Photo courtesy of
HouseWorks Building Science Inc.



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