REPORTS OF COMMITTEES, COUNCIL REPRESENTATIVES AND STAFF

8. Amendment to Mid-Market Rental Policy and Exploration of New Inclusionary Zoning Program for Strata Developments – File: 10-5040-03-0001/2018

Report: Planner 2, July 18, 2018

Moved by Councillor Keating, seconded by Councillor Clark

PURSUANT to the report of the Planner 2, dated July 18, 2018, entitled "Amendment to Mid-Market Rental Policy and Exploration of New Inclusionary Zoning Program for Strata Developments":

THAT the Mid-Market Rental Policy, as outlined in the Density Bonus and Community Benefits Policy, be amended to require 10 percent of units at 10 percent below average rents in the City in perpetuity for all new market rental developments that seek a density bonus;

THAT the amended requirement for Mid-Market Rental Units at "10-10-In Perpetuity" come into effect on January 1, 2019 for any development applications received on or after that date;

THAT staff be directed to explore and report back to Council on a potential Inclusionary Zoning Program to require below-market rental units or its cash equivalent for all new strata developments in the City;

AND THAT staff be directed to consult the development community, non-profit housing sector and other community stakeholders to obtain feedback on an Inclusionary Zoning Program in strata developments.

Moved by Councillor Bell, seconded by Councillor Clark

THAT the motion be amended by changing the effective date in the second active clause to September 1, 2018.

Amendment motion **DEFEATED**

Councillor Back, Councillor Bookham, Councillor Buchanan, Councillor Keating and Mayor Mussatto are recorded as voting contrary to the amendment motion.

Main motion **CARRIED UNANIMOUSLY**

Division Manager	Director	CAO

The Corporation of **THE CITY OF NORTH VANCOUVER**
PLANNING DEPARTMENT

REPORT

To: Mayor Darrell R. Mussatto and Members of Council

From: Wendy Tse, Planner 2

SUBJECT: AMENDMENT TO MID-MARKET RENTAL POLICY AND EXPLORATION OF NEW INCLUSIONARY ZONING PROGRAM FOR STRATA DEVELOPMENTS

Date: July 18, 2018 File No: 10-5040-03-0001/2018

The following is a suggested recommendation only. Refer to Council Minutes for adopted resolution.

RECOMMENDATION:

PURSUANT to the report of the Planner 2, dated July 18, 2018, entitled "Amendment to Mid-Market Rental Policy and Exploration of New Inclusionary Zoning Program for Strata Developments":

THAT the Mid-Market Rental Policy, as outlined in the Density Bonus and Community Benefits Policy, be amended to require 10 percent of units at 10 percent below average rents in the City in perpetuity for all new market rental developments that seek a density bonus;

THAT the amended requirement for Mid-Market Rental Units at "10-10-In Perpetuity" come into effect on January 1, 2019 for any development applications received on or after that date;

THAT staff be directed to explore and report back to Council on a potential Inclusionary Zoning program to require below-market rental units or its cash equivalent for all new strata developments in the City;

AND THAT staff be directed to consult the development community, non-profit housing sector, and other community stakeholders to obtain feedback on an Inclusionary Zoning program in strata developments.

ATTACHMENTS:

1. Excerpt from the City of North Vancouver Housing Action Plan – Mid-Market Rental Units (Doc#1583441)
2. Current Density Bonus and Community Benefits Policy 2018 with Proposed Amendments (Doc#1677329)
3. Financial Analysis Presentation to Council from Coriolis Consulting (Doc#1677335)
4. Final Summary Report of Inclusionary Zoning Financial Analysis from Coriolis Consulting (Doc#1665962)
5. City of Richmond Bulletin – Richmond Affordable Housing Strategy (Doc#1677385)
6. Excerpt from City of Richmond Affordable Housing Strategy – Low End of Market Rental Unit Contribution (Doc#1677386)

PURPOSE

The purpose of this report is to seek Council direction to amend the City's Mid-Market Rental Policy to require Mid-Market Rental units to be provided in perpetuity, as opposed to the current requirement of 10 years, as a condition of a density bonus for new market rental developments. This report also seeks Council support to explore a separate Inclusionary Zoning program to secure below-market rental units or its cash equivalent for all new strata developments in the City.

BACKGROUND

On October 2, 2017, Council directed staff to explore a potential policy to require below-market rental units in all new multi-unit developments in the City:

> **WHEREAS** approximately 50% of City households are renters;
>
> **WHEREAS** the vacancy rate in the City of North Vancouver is approximately 0.3%;
>
> **AND WHEREAS** an affordable supply of rental accommodation is fundamental to a sustainable, inclusive and liveable city;
>
> **THEREFORE BE IT RESOLVED THAT** Council instruct staff to bring forward coordinated policies to ensure that any and all multi-family developments in the City provide a minimum of 20% of units, as rental, on a 10% below market rate in perpetuity.

In British Columbia, local governments may require below-market units in new developments in exchange for a density bonus or other incentives through a regulatory tool known as Inclusionary Zoning (IZ). The City currently utilizes an IZ program to require below-market rental units in new market rental developments, the first of its kind in Metro Vancouver. This initiative, better known as the Mid-Market Rental (MMR) or "10-10-10"

Policy requires, as a condition of a density bonus, that 10 percent of all units be rented at 10 percent below average rents for the City for a minimum period of 10 years (Attachment #1). Average rents are determined annually by the Canada Mortgage and Housing Corporation (CMHC).

The City does not currently have a similar IZ program for new strata developments. Instead, the City's Density Bonus and Community Benefits Policy requires 20 percent of all Community Benefit Contributions (CBCs) received by the City to be directed to the Affordable Housing Reserve Fund (AHRF). In addition, the Density Bonus and Community Benefits Policy allows non-market housing units, which are earmarked for low to moderate income households, to be provided as a community benefit in lieu of a cash contribution to incentivize the provision of affordable housing in new strata developments (Attachment #2).

To understand the financial feasibility of a comprehensive IZ program for the City, Coriolis Consulting Corporation was retained in March 2018, following a public Request for Qualifications process, to conduct this specialized analysis. Through a methodology called Land Residual Analysis, Coriolis determined the value of various sites in the City based on its current development potential, under both a market rental and strata scenario, and the effect an IZ requirement would have on the financial viability of the development. An overview of the sites analyzed is listed in Table #1.

Table #1: *Overview of Sites analyzed for Coriolis Consulting*

Site	Existing Zoning / Floor Space Ratio	OCP Designation/ Density/ Maximum Bonus	Assumed Construction Material
1	Central Lonsdale Commercial A (C-1A) / 2.6 FSR	Mixed Use Level 4B (High Density) / 3.0 FSR / 1.0 FSR	Concrete
2	Medium Density Residential 1 (RM-1) / 1.6 FSR	Residential Level 5 (Medium Density) / 1.6 FSR / 1.0 FSR	Wood frame
3	Service Commercial 1 (CS-1) / 0.9 FSR	Mixed Use Level 2 (Medium Density) / 2.0 FSR / 0.5 FSR	Wood frame over concrete
4	General Commercial (C-2) / 2.3 FSR	Mixed Use Level 3 (Medium Density) / 2.3 FSR / 0.5 FSR	Wood frame over concrete
			Concrete

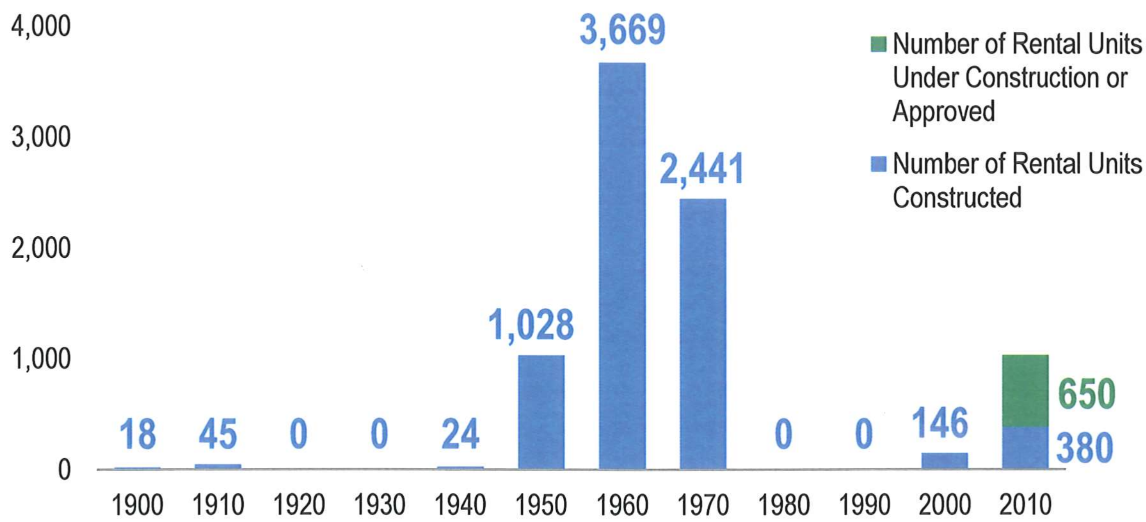
On June 25, 2018, Coriolis presented its preliminary findings to Council. A copy of the presentation and the final summary report are provided for reference in Attachments #3 and #4, respectively.

DISCUSSION

IZ in Market Rental Developments

Due to the difference in economic returns between strata and market rental developments, incentives are often required to persuade the private market to build market rental projects. As illustrated in Figure #1, the elimination of federal funding and tax incentives in the early 1980s, combined with the introduction of strata ownership in British Columbia in 1966, resulted in zero market rental developments constructed in the City until as recently as 2000. Since then, the increase in new market rental projects is likely due in part to incentives offered by the City to encourage new supply, including bonus density, waiver of CBCs, and lower vehicle parking requirements.

Figure #1: *Period of Market Rental Construction in the City of North Vancouver (Source: Statistics Canada and City of North Vancouver)*



Due to the sensitivity of rental development to market factors, the City has endeavoured to balance incentives for market rental developments to encourage additional units, while securing affordability in these projects when feasible. These efforts have resulted in the current MMR Policy. Based on a comparison of current market rents and MMR rents, the discounted rents offered by MMR units are significant and provide affordable rental options in new market rental developments (Table #2).

To date, the City has secured 41 MMR units, including 14 units which will be operated by the YWCA at non-market rents for single mothers with children. The first MMR units are anticipated to be occupied in 2019, with tenants displaced from the existing building having first right of refusal to rent in the new MMR units. Occupancy of the MMR units will be tracked at the initial application for a Business Licence, as well as annually at Business Licence renewal.

Based on Coriolis' analysis, increasing the current MMR Policy to require 20 percent of units at 10 percent below average rents in perpetuity, as per Council's resolution, is not financially feasible for any of the rental sites analyzed (Table #3). However, it was found that the current requirement of "10-10-10" could be changed to "10-10-In Perpetuity" and still produce viable market rental projects on certain sites. This was particularly true for the RM-1 (Medium Density Apartment Residential 1) Zone, which is where the majority of the City's older rental stock is located and the likely redevelopment sites in the near future. As these older buildings reach the end of their economic life, the change to "10-10-In Perpetuity" would help ensure below-market rental units are available for low and moderate income renters for the life of the building, as opposed to only 10 years. As such, staff recommend amending the City's Mid-Market Rental Policy, which is contained within the Density Bonus and Community Benefits Policy, to require 10 percent of all units be rented at 10 percent below average rents for the City in perpetuity, as a condition of a density bonus for market rental developments (Attachment #2).

Table #2: *Comparison of Market Rents and MMR Rents*

	June 2018 Market Rents*	2017 Mid-Market Rents**	Percentage Difference
Studio	$1,500	$916	39% below
One Bedroom	$1,900	$1,096	42% below
Two Bedroom	$2,300	$1,426	38% below
Three Bedroom	$3,825	$1,820	45% below

* Current market rents were obtained from a new market rental development in Central Lonsdale advertised on Craigslist in June 2018

** Mid-Market Rents were determined by discounting 10% from 2017 CMHC Average Rent, assuming occupancy in 2018

Table #3: *Financial Feasibility of Various IZ Requirements in Market Rental Projects*

Site	Existing Zoning	OCP Designation	Existing Rental	A: Max OCP Density No MMR*	B: Max OCP Density 10% MMR*	C: Max OCP Density 20% MMR*
1	C1-A	Mixed Use Level 4B (High Density)	No	Not Viable	Not Viable	Not Viable
2	RM-1	Residential Level 5 (Medium Density)	Yes	Viable	Viable	Not Viable
3	CS-1	Mixed Use Level 2 (Medium Density)	No	Viable	Viable	Not Viable
4	C-2	Mixed Use Level 3 (Medium Density)	No	Not Viable	Not Viable	Not Viable

*In Coriolis' analysis, MMR units are to be rented at 10 percent below CMHC average rents and provided in perpetuity

Recognizing that some market rental development sites have been transacted with the understanding of the current "10-10-10" requirement, staff recommend a delayed effective date of January 1, 2019. This allows time for impending developments to submit an application under the existing MMR Policy, as well as time to inform the development community of the new requirement of "10-10-In Perpetuity" for all new market rental developments.

Analysis is currently underway to explore the potential use of rental-only zoning in the City with new provincial legislation now in effect. Through this review, staff will determine if the requirement of "10-10-In Perpetuity" could be applied to rental-only zones without significantly impacting the financial feasibility of new market rental projects built under permitted zoning. Staff anticipate reporting back to Council on this analysis in a separate report and potentially bringing forward Zoning Bylaw amendments to enact rental-only zones later this year or early next year.

IZ in Strata Developments

Based on Coriolis' analysis, similar to market rental developments, an IZ requirement of 20 percent of units to be provided at 10 percent below average rents in perpetuity is not financially feasible for new strata developments (Table #4). This is true even after reducing the cash contribution requested from strata developments by the 20 percent that would have been allocated to the Affordable Housing Reserve Fund (AHRF) and eliminating the cash contribution on the floor area of the IZ units. In order to achieve 20 percent of units at 10 percent below average rents in perpetuity, the full CBC payment would have to be waived, which would have significant impacts on the financial ability of the City to fund community amenities. Alternatively, the City could explore additional density provisions or density waivers. This will require an amendment to the Official Community Plan (OCP), which establishes the maximum base density and bonus density permitted in each land use designation.

Table #4: *Financial Feasibility of Various IZ Requirements in Strata Projects*

			A	B	C	D
Site	**Existing Zoning**	**OCP Designation**	**Max OCP Density No MMR***	**Max OCP Density 10% MMR***	**Max OCP Density 20% MMR***	**Max OCP Density 20% MMR* No CBC**
1	C1-A	Mixed Use Level 4B (High Density)	Viable	Viable	Not Viable	Viable
2	RM-1	Residential Level 5 (Medium Density)	Viable	Viable	Not Viable	Viable
3	CS-1	Mixed Use Level 2 (Medium Density)	Viable	Viable	Not Viable	Viable
4	C-2	Mixed Use Level 3 (Medium Density)	Viable	Viable	Not Viable	Viable

*In Coriolis' analysis, MMR units are to be rented at 10 percent below CMHC average rents and provided in perpetuity

Similar to market rental developments, an IZ requirement of "10-10-In Perpetuity" is feasible in strata developments. In this case, the 20 percent of CBCs that would currently be allocated to the AHRF would instead go directly into the built units. The remaining CBC payment to the City would also be reduced as a cash contribution would not be collected on the as-built IZ units.

The management of IZ units in strata developments may pose potential challenges due to the fact that developers of strata developments are often not inclined or knowledgeable about managing rental units, particularly below-market rental units that require vetting of household incomes. This has been the case in the City of Richmond, which has required new strata development containing more than a certain number of units to build Low End Market Rental (LEMR) units since 2007 (Attachment #6). Due to the challenges experienced with the management of LEMR units, the recently updated Richmond Affordable Housing Strategy aims to increase non-profit ownership and management of LEMR units in order to ensure occupancy management practices are aligned with the values and intent of municipal affordable housing objectives (Attachment #7).

Overall, any new IZ requirement in strata developments would likely be accompanied by reductions in cash contributions to the City to ensure that development of new projects remains financially feasible. As such, the following considerations should be explored prior to requiring IZ units in strata developments:

- Ability to secure significantly discounted non-market housing units in strata developments,
- Impact to the AHRF and its ability to fund other affordable housing projects;
- Financial impact on current and future CBCs to fund other amenities needed in the community; and
- Sustainable administration and management of IZ units in strata developments.

Based on the considerations listed above, staff recommend taking further time to explore a potential IZ program for new strata developments. This work is suggested to be in collaboration with other City departments, particularly Finance, and guided by the City's Financial Plan process. Staff also propose to consult the development community, non-profit housing sector, and other community stakeholders to obtain feedback on an Inclusionary Zoning program in strata developments prior to reporting back to Council. Similar consultations were conducted by the City prior to the introduction of the MMR Policy.

FINANCIAL IMPLICATIONS

To incentivize market rental development, the City currently forgoes a cash contribution for new market rental projects, but requires the provision of “10-10-10”. The amendment to the MMR Policy to require "10-10-In Perpetuity" would result in no change from the current situation in terms of monies collected by the City. The change from "10-10-10" to "10-10-In Perpetuity" would in fact be a better "investment" of the forgone CBC offered by the City as the below-market rental units would remain for a longer duration of time to the social and economic benefit of lower income renters.

There are financial implications associated with creating an IZ program for strata developments, which have to be explored further through the City's Financial Plan process prior to returning to Council for direction.

INTER-DEPARTMENTAL IMPLICATIONS

This report was endorsed by the Civic Projects Team and the Directors Team at their joint meeting on July 17, 2018.

SUSTAINABILITY COMMENTS

Achieving community benefits, including affordable housing, though density bonusing is a key tool in advancing the City's policy objectives, particularly in the Housing Action Plan, and working towards social, environmental, and economic sustainability. Securing amenities for current and future residents is an important part of ensuring that the City remains a livable, complete community. In particular, securing affordable housing ensures the City remains a welcoming community that is attainable for residents of all economic abilities.

CORPORATE PLAN AND/OR POLICY IMPLICATIONS

A variety of OCP objectives would be achieved with an Inclusionary Zoning program in effect in the City, including:

- **Opportunity-Filled** – Opportunities for people of all abilities to flourish
- **Healthy and Inclusive** - Safe, socially inclusive and supportive community
- **Diverse and Affordable** - Housing diversity and affordability

This effort further aligns with the vision of the Housing Action Plan:

> To ensure there are diverse and appropriate housing options for current and future residents of all ages, incomes, and abilities.

RESPECTFULLY SUBMITTED:

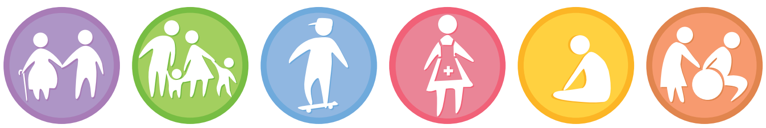
Wendy Tse
Planner 2

WT:eb

3. MID-MARKET RENTAL UNITS

- Objective: To enable affordability for low and moderate income renters.

- Alignment with City Policy:
  OCP 1.5.2 Increase the amount of affordable and adequate accommodations for lower income households (including non-market housing) in an effort to meet the Metro Vancouver Housing Demand Estimates articulated for the City over the next 10 years; and,
  OCP 1.5.4 Prioritize the development and revitalization of affordable rental housing and use density bonusing and density transfers to incentivize the retention, renewal and/or replacement of rental housing as a public benefit.



ACTIONS:

a. Update the Density Bonus and Community Benefits Policy to include the condition that all new market rental developments seeking the 1.0 Floor Space Ratio (FSR) density bonus under the 100% Rental Housing category are to provide a minimum of 10 percent of units as Mid-Market Rental Units;

b. Prepare a Housing Agreement template to secure Mid-Market Rental Units for a minimum period of 10 years;

c. Liaise with rental building owners to monitor absorption rates for Mid-Market Rental Units and adjust policy if and when required; and,

d. To facilitate even greater affordability, explore the use of the Affordable Housing Reserve Fund or external funding opportunities to provide property tax exemptions for new market rental projects that agree to provide Mid-Market Rental Units at a greater subsidy level or for a longer time period.

The existing purpose-built rental stock offers some of the most affordable rents in the City. However, with the majority of these buildings constructed between the 1950s and 1970s when senior government incentives were available, many of these buildings are now nearing the end of its economic life.

To incentivize new rental housing development, the City offers bonus density for secured market rental projects. To ensure affordability in new market rental developments, while also increasing the overall stock of rental housing in the City, Mid-Market Rental units must be rented at below average rental rates to low and moderate income renters, including the City's workforce.

Mid-Market Rental Units	Rental units provided at slightly lower rental rates than average market rental prices in the City of North Vancouver. Mid-Market Rental Units are set at 10% below Canada Mortgage and Housing Corporation average market rents for the City, based on unit type, and secured for a minimum period of 10 years.

The intention of this action is to utilize the City's density bonusing tool to generate new rental units at more affordable rent levels. Mid-Market Rental Units are anticipated to benefit low to moderate income households who cannot afford market rental rates within 30% of their gross income, the standard measure of affordability, but who are not eligible for subsidized housing.

The sample calculation for Mid-Market Rental Units rental rates are outlined in the table below. The starting rents for Mid-Market Rental Units will be revised on an annual basis, as determined by the Canada Mortgage and Housing Corporation. The rental rate for Mid-Market Rental Units will be set at occupancy of the building and may be subsequently increased by the permitted annual rent increase set by the British Columbia Residential Tenancy Act.

Sample Calculation: 10% Below CMHC Average Market Rents for the City of North Vancouver [2]			
Unit Size	2015 Average Rent	Low-End of Market Rent (10% Below Market)	Recommended Household Income Limit
Bachelor	$921	$829	$33,160
1 Bedroom Unit	$1,084	$976	$39,040
2 Bedroom Unit	$1,367	$1,230	$49,200
3 Bedroom Unit	$1,567	$1,410	$56,400



Mid-Market Rental Units will be secured by Housing Agreement, which will specify the terms and conditions of the form and tenure of the units, the target households to occupy the units, administration and management of the units, rental rates, and the length of time to secure the units. These units are to be administered by the rental building owner or an outside agency, if the owner chooses, with City staff providing oversight.

[2] Low-end of market rents were determined by calculating 10% of the average market rents in the City of North Vancouver as reported by CMHC (2015), by unit size. Maximum Household Income Limits were determined by multiplying the low-end of market rents by 12 to yield the households' annual housing costs, and divided by 30% to meet the standard level of affordability.

2018 Density Bonus and Community Benefits Policy

~~Amended: July 17, 2017 Enactment: January 1, 2018~~

Amended: [July 23, 2018] Enactment: January 1, 2019

Document: 1498374-v3

PDF Document #1553816

1. Introduction

This document serves as a guide for the consideration of density bonuses and density transfers within the framework of the Official Community Plan (OCP) and Local Government Act. This document should be read in conjunction with the OCP and, in particular, Section 2.2 Density Bonusing, Section 2.3 Density Transfer, and the Schedule ‘A’ Land Use Map.

This guide is intended to provide a greater degree of certainty regarding the purpose and value of community benefit contributions that may occur in conjunction with development applications. Contributions of this nature help ensure that the City is able to provide amenities to meet the needs of our growing community.

Owners and applicants are reminded that OCP and rezoning applications are at Council’s absolute discretion. While these guidelines provide a framework for determining Community Benefits related to rezoning applications, Council may reduce, increase or reject any application.

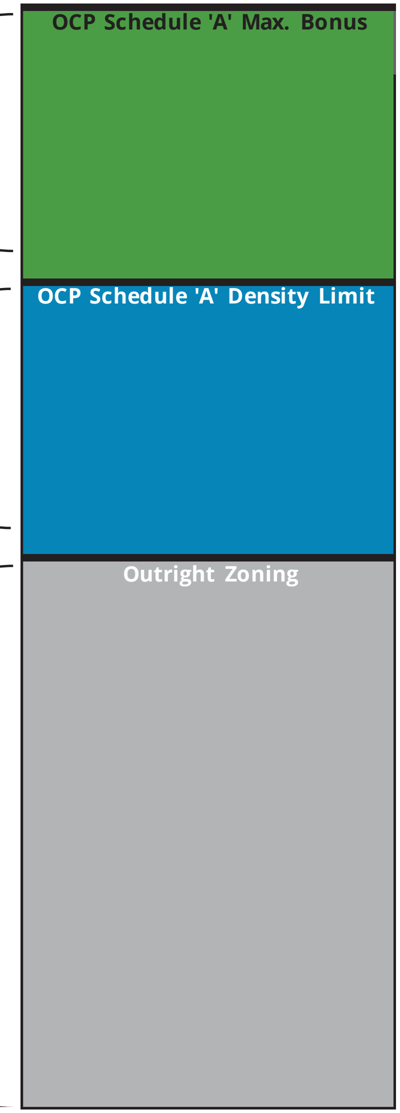
2. Density Bonus Categories

The graphic to the right describes two types of density bonuses. Community Benefit options applicable to each of these bonus categories are outlined in Section 3 of this policy.

Category 'B' Bonus:
Up to OCP Schedule 'A' Max. Bonus
An increase in density that exceeds the *OCP Schedule 'A' Density* up to the maximum bonus amount set out in the OCP. This type of bonus requires a rezoning, which may include a Town Hall meeting as well as a Public Hearing.

Category 'A' Bonus:
Up to OCP Schedule 'A' Density
An increase in density that does not exceed the *OCP Schedule 'A' Density*. This can include lands that are pre-zoned with a density bonus, as well as lands that are rezoned through a site specific rezoning process with a density bonus.

Outright Zoning:
The amount of density permitted on an outright basis in the Zoning Bylaw.



3. Community Benefit Options

Choose one path or combine from the following options outlined below in order to achieve additional density beyond outright zoning:

	i) Community Benefit Cash Contributions	ii) Secured Rental Housing*	iii) Employment Generating Use*	iv) Heritage Conservation*
Category 'B' Bonus Up to Schedule 'A' Max. Bonus	**Lonsdale Regional City Centre:** **$190 per sq. ft. of Residential Floor Area increase between the OCP Schedule 'A' Density and the OCP Maximum Bonus** **Other areas:** **$175 per sq. ft. of Residential Floor Area increase between the OCP Schedule 'A' Density and the OCP Maximum Bonus** *Conditions:* • *Sites with Existing Rental units are not eligible for a bonus except for Secured Rental Housing* • *Cash Contributions may be negotiated only in unique circumstances* • *In-kind Contributions may be negotiated*	**A) 100% Rental Housing**** *Conditions:* • *10% of rental units must be Mid Market Rental Units (see definition)* **B) Portion as Non-Market Housing** 30% of increment/bonused amount provided as Non-Market Rental Housing (see definition); the remainder can be market strata development *Conditions:* • *Not applicable for Existing Rental sites* **C) Rental Retention** Maintaining Existing Rental Building with Bonus Density Transfer to Another Site *Conditions:* • *A recipient site for the density transfer must be determined in advance at the City's discretion* • *A business plan must outline how the existing building will be repaired and upgraded.*	**Additional Commercial Floor Area** 1 sq. ft. Bonus for every 1 sq. ft. of Commercial Floor Area provided beyond the first 1.0 FSR of Commercial Area *Clarifications:* • *Can be combined with a cash contribution to reach 100% of the OCP Maximum Bonus* • *100% Commercial use buildings are encouraged and can receive the OCP Maximum Bonus*	**Appropriate bonus for restoration and preservation determined through rezoning process** *Clarifications:* • *The OCP Maximum Bonus provision does not apply to heritage conservation bonuses.* • *The cost of the works to restore the heritage resource will be considered in setting the value of the density bonus.*
Category 'A' Bonus Up to Schedule 'A' Density	**$25 per sq. ft. of Residential Floor Area increase beyond existing zoning to full Schedule 'A' density** *Conditions:* • *Sites with Existing Rental units are not eligible for a bonus except for Secured Rental Housing* • *Contributions can be negotiated only in unique circumstances*	**No Amenity Fund Contribution is suggested for Secured Rental Housing projects**	**No Amenity Fund Contribution is suggested for 100% commercial projects**	**Bonus for restoration and preservation determined through rezoning process**
OUTRIGHT ZONING				

* In cases that Community Benefit Cash Contributions are waived, limited off-site improvements relating to safety to accommodate the density of development proposed may still be required as a condition of rezoning.

** While multiple pathways can be combined for full density bonus in most categories, this is not possible for 3(ii)(A): 100% Rental Housing.

4. Density Transfers

A transfer of density is the relocation of anticipated density from one parcel of land to another. To achieve the goals and objectives outlined in this Plan and/or achieve a preferable form of development, City Council may authorize transfers of density between properties. Such transfers do not involve an increase in the total development potential, but rather the relocation of a density allowance. Density transfers require a rezoning with Public Hearing and, if approved, require that a Land Title Act covenant be registered on all affected properties confirming that the transfer has occurred.

Density Transfers are appropriate in the following two scenarios:

1. Density Transfer donor site is adjacent or in close proximity (i.e., same block) as the receiving site and transfer will result in a preferable built form; and/or
2. Significant civic or public benefit will accrue from the Density Transfer (e.g., secured protection of a valued heritage site or provision towards an important civic facility).

5. Applying the Density Bonus and Community Benefits Policy

This policy should be read in conjunction with other City policies. Please note that:

- The Community Benefit Options outlined in Section 3 are intended as guidelines. Alternatives may be considered by Council in unique circumstances. This could include the provision of on-site Community Amenities rather than a contribution to an amenity fund, for example. On-site Community Amenities would be determined based on community needs and must match the value of the bonus density.

- Infrastructure upgrades needed to accommodate a development or mitigate development impacts may be required in addition to Community Benefit Cash Contributions or other Community Benefits.

- All development applications must provide bylaw-required infrastructure upgrades and contributions, Development Cost Charges, and other applicable municipal fees. Density bonus and community benefit contributions are not in lieu of what is otherwise due to the City.

- Public art is not funded by Community Benefit Cash Contributions and will be negotiated separately, in addition to the Community Benefit Options described above.

- Community Benefits for OCP amendments are negotiated on a case by case basis considering the nature and extent of the change and community needs.

- Any application which involves the displacement of existing tenants must comply with Council Policy No. H18: Residential Tenant Displacement Policy.

- This policy does not apply to properties currently designated Residential Level 1 or Residential Level 2 in the Official Community Plan, except in relation to the opportunity to receive a density bonus in exchange for heritage conservation.

- Development proposals that are inconsistent with the Density Bonus and Community Benefits Policy will be reviewed by Council prior to processing of the application, and the proponent will be required to demonstrate:
    - That the requested deviation from the policy is warranted by unique circumstances; and
    - That other public benefits of equivalent value will be accrued (for example, a secured commitment to exceed the minimum term of affordability for Mid-Market Rental Units or to meet another Community Benefit priority)

6. Allocating Community Benefit Cash Contributions

Cash contributions for Community Benefits are to be applied to the Civic Amenity Reserve Fund and Affordable Housing Reserve Fund. These funds are used to ensure a high quality of life as the community grows. These Funds specifically provide for the following Community Benefits:

Civic Amenity Reserve Fund

Contributions to this fund will be used to provide City-serving amenities, as per Bylaw No. 6967 (Civic Amenity Reserve Fund).

This includes, but is not limited to:
- Harry Jerome Community Recreation Centre;
- Waterfront Amenity Spaces;
- Park and public open space improvement;
- Child Care Facilities;
- Museum;

- Greenways construction and improvements;
- Active transportation projects;
- Traffic safety improvements; and
- Other Civic Amenities.

Affordable Housing Reserve Fund

Contributions to this fund will be used for the provision of new nonmarket and special needs housing units, as per Bylaw No. 6757 (Affordable Housing Reserve Fund).

Community Benefit Cash Contributions shall generally be allocated as indicated in the table below. These funds shall be spent at Council's discretion as per the terms of the Bylaws establishing these funds, as amended from time to time. These funds shall be allocated to future projects based on identified community needs.

Percentage	Public Benefits	Fund
80%	Civic Facilities / Community Amenity Space	Civic Amenity Reserve Fund
20%	Affordable and Rental Housing	Affordable Housing Reserve Fund

In-kind contributions will be accepted, at the discretion of the City, in order to assure timely mitigation of additional density in a neighbourhood, when deemed appropriate.

7. Monitoring

The *Community Benefit Cash Contribution* amounts shall be updated periodically to reflect community needs and changing market conditions. The allocation of Amenity Fund Contribution amounts to individual reserve funds will be reviewed annually in conjunction with the City's Financial Plan in order to ensure alignment with Council priorities.

A summary of *Community Benefit Cash Contributions* received will be prepared and presented annually.

Appendix 1: Definitions

Commercial Floor Area means the square-footage measurement of commercial office or retail space in a building.

Community Amenity is a defined physical space that provides direct or indirect Community Benefits to the community and includes, but is not limited to, recreation facilities, child care facilities, museum, library, offices for non-profit organizations, cultural facilities, heritage conservation, civic and institutional uses, district heating utility, community meeting space and employment-generating offices.

Community Benefit Cash Contributions are the cash or in-kind contributions toward Community Benefits provided in return for a rezoning or OCP Amendment. Contributions are assumed to be in cash except as negotiated and at the direction of Council.

Community Benefits are the wide range of benefits achieved in the public interest, to support the Goals and Objectives of the OCP. These are realized through amenity reserve fund contributions and/or through other Community Amenities. Community Benefits are achieved through rezoning or density bonusing.

Density is the Floor Space Ratio that can be achieved on a parcel, as a calculation of gross floor area over site area.

Density Bonus is additional density provided in return for Community Benefits.

Density Transfer is the relocation of anticipated density from a donor site to a recipient site.

Floor Space Ratio (FSR) is a method of calculating density and controlling the size of building that can be built on a property. The FSR multiplied by the lot area determines the maximum size of building.

Land Use Designation means the permitted uses and densities as outlined in Schedule 'A' of the Official Community Plan.

Mid-Market Rental Units means dwelling units:

(a) that are occupied by households that are low and moderate income renters, including the City's workforce;

(b) that are set at 10% below Canada Mortgage and Housing Corporation average market rents for the City, based on unit type, and secured ~~for a minimum period of 10 years~~ in perpetuity; and

(c) in respect of which the registered owner or ground lessee of the freehold or leasehold title to the land on which the housing is situate has granted to the city a section 219 covenant, housing agreement, or other security for the housing commitments required by the city, registered against the freehold or leasehold title, with such priority of registration as the city may require;

Non-Market Rental Housing means dwelling units:

(a) that are occupied by households with incomes below housing income limits, as set out in the current "Housing Income Limits" table published by the British Columbia Housing Management Commission, or equivalent publication;

(b) that are owned by a non-profit corporation, by a non-profit co-operative association, or by or on behalf of the city, the Province of British Columbia, or Canada; and

(c) in respect of which the registered owner or ground lessee of the freehold or leasehold title to the land on which the housing is situate has granted to the city a section 219 covenant, housing agreement, or other security for the housing commitments required by the city, registered against the freehold or leasehold title, with such priority of registration as the city may require;

Official Community Plan (OCP) is Bylaw No. 8400, one of the City's most significant guiding policy documents. The OCP sets a long-term vision for the City. All other municipal bylaws and works undertaken by the City must be consistent with the OCP.

OCP Maximum Bonus means the highest *Floor Space Ratio* increase that can be achieved on a site (excluding density transfers) through a *Category 'B' Bonus*, as per the OCP. All such density bonuses are subject to a rezoning and enhanced public process.

OCP Schedule 'A' Density means the density permitted for a given Land Use Designation in the OCP, under the Schedule 'A' Land Use Map. The Density Bonus and Community Benefits Policy needs to be read in conjunction with the Schedule 'A' Land Use Map to determine permitted maximum densities.

Outright Zoning means the maximum *Floor Space Ratio* that can be realized on a site under existing zoning through a Building Permit without any density bonus or any rezoning of the lands for additional density.

Rental Housing means dedicated purpose-built rental tenure residential units.

Residential Floor Area means the total of market and non-market residential gross floor area.

Secured means required and guaranteed through one or a combination of the following tools: zoning bylaw, Housing Agreement, Heritage Revitalization Agreement, covenant, or other legal tool.

FINANCIAL ANALYSIS: INCLUSION OF MID MARKET RENTAL UNITS IN NEW APARTMENT PROJECTS

SUMMARY OF FINDINGS

Coriolis Consulting Corp.

June 2018

Scope

Financial analysis to inform potential policies for Inclusionary Zoning:

1. Require Mid Market Rental (MMR) units in new strata apartment projects
2. Expand requirement for MMR units in new rental apartment projects (from current 10/10/10 policy).

Assumptions/Objectives

- MMR unit rents are set at 10% below CMHC average rents for City of North Vancouver
- MMR unit rents restricted for life of building (currently 10 years)
- Aim for 20% of units as MMR units
- Limit any impacts on community benefit contributions from strata projects
- Consider waiving the portion of community benefit contribution that goes to affordable housing (20%)
- No impact on viability of new development

Impact of MMR units on Project Economics - Hypothetical Example

(figures in $millions)	**A** **Existing Zoning (3.0)** **75 units**	**B** **OCP Maximum Density (4.0)** **100 units**	**C** **OCP Maximum Density (4.0)** **10% MMR** **90 Strata + 10 MMR**	**D** **OCP Maximum Density (4.0)** **20% MMR** **80 Strata + 20 MMR**
Revenue:				
Strata at ($925K-$950K per unit)	$69.4	$95.0	$85.5	$76.0
MMR Units ($275K/unit)	No units	No units	$2.5	$5.0
Total Revenue	$69.4	$95.0	$88.0	$81.0
Less Costs and Profit:				
Marketing (5% of strata revenue)	$3.4	$4.8	$4.3	$3.8
Strata Construction (all-in) at $575K/ unit	$43.1	$57.5	$51.7	$46.0
MMR Construction (all-in) at 375K/ unit	$0	$0	$3.8	$7.5
Community Benefit Contribution at $150K per bonus strata unit	$0	$3.8	$2.3	$0.8
Profit (15% of costs)	$9.1	$12.4	$11.5	$10.6
Supportable Land Value	$13.8	$16.5	$14.4	$12.3

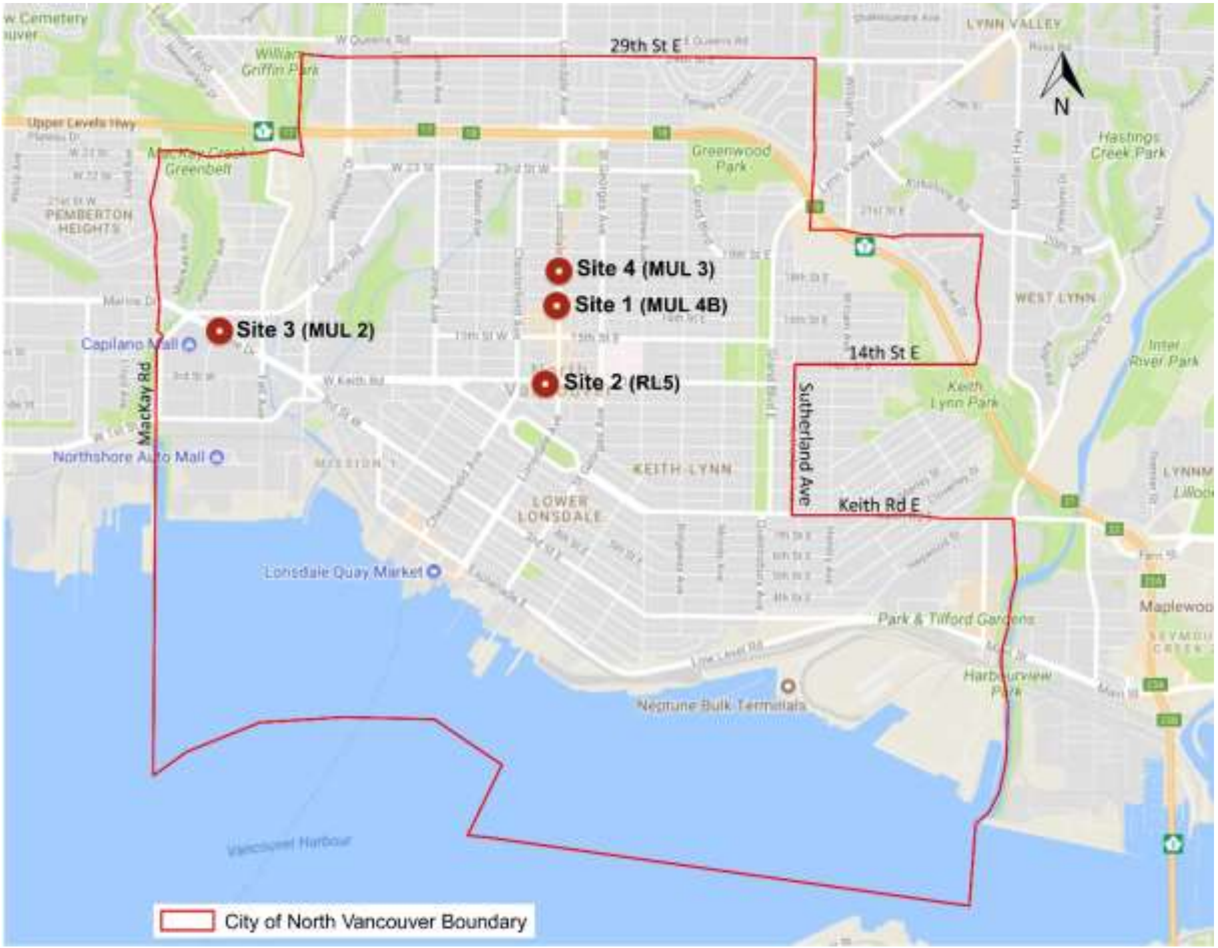
Key Points

1. Bonus density creates the opportunity for MMR units
2. MMR only viable in cases where applicant is seeking bonus density/rezoning
3. Supportable share of MMR units depends on amount of bonus density (which varies) so not uniform across all projects
4. Financially viable share of MMR units depends on:
   - Amount of bonus density
   - Community benefit contribution required for bonus density (trade off)
5. MMR units will reduce community benefits contribution revenue

Key Points (continued)

6. MMR will reduce amount a developer can afford to pay for a site – so will reduce land values
7. If supportable land value declines significantly, fewer sites will be redevelopment candidates
8. Fewer development sites ➔ reduced pace of new unit construction (and fewer MMR units)
9. Reduced unit supply with continued demand ➔ market-wide price increase
10. Can be mitigated with additional bonus density or reduced community benefit contribution

Location of Case Study Sites



Strata Apartment Findings

	OCP Designation	Existing Zoning	Height	A Max OCP Density 10% MMR 100% of Community Benefit Contribution	B Max OCP Density 10% MMR 80% of Community Benefit Contribution	C Max OCP Density 20% MMR 80% of Community Benefit Contribution	D Max OCP Density 20% MMR 0% of Community Benefit Contribution
1	MUL4B (3.0 + 1.0 FSR)	C1-A	Highrise	viable	viable	not viable	viable
2	RL5 (1.6 + 1.0 FSR)	RM1	6 storeys	not viable	viable	not viable	viable
3	MUL2 (2.0 + 0.5 FSR)	CS-1	4 to 6 storeys	not viable	viable	not viable	viable
4	MUL3 (2.3 + 0.5 FSR)	C2	6 to 8 storeys	not viable	viable	not viable	not viable

Implications for MMR at Strata Projects

1. 10% MMR is financially viable if the affordable housing portion of the community benefit contribution is waived
2. 20% MMR would require:
   - Waiver of the community benefit contribution, or
   - Significant increase in bonus density (although height implications) or exclusion of MMR space from FSR, or
   - Combination of above
3. Projects in some designations may not be able to support 20% MMR (i.e. MUL3)

Rental Apartment Findings

			A	B	C
Existing Zoning	Height	Existing Rental	Max OCP Density No MMR	Max OCP Density 10% MMR	Max OCP Density 20% MMR
C1-A	Highrise	No	not viable	not viable	not viable
RM1	6 storeys	Yes	viable	viable	not viable
CS-1	to 6 storey	No	viable	viable	not viable
C2	to 8 storey	No	not viable	not viable	not viable

Implications for MMR at Rental Projects

1. Different opportunity for different types of rental projects
2. Projects that involve redevelopment of existing rental can support MMR units (as bonus density not available otherwise)
3. Most projects at sites that are not currently improved with rental are unlikely to support MMR units (without increased bonus density)
4. MMR unit potential (as %) is higher at woodframe rental projects than concrete rental projects due to differences in construction costs
5. Opportunity to extend existing 10% MMR requirement to life of building (from 10 years currently)

Other Considerations

1. Administration/Enforcement
2. Minimum threshold for number of MMR units (cash in lieu below this threshold)
3. Impact on existing land values
4. Viability of rental development is marginal on most sites

Conclusions

1. For strata projects, consider:
   - 10% MMR with existing community benefit contribution (excluding affordable housing portion)
   - 20% MMR with no community benefit contribution
   - 20% MMR with existing community benefit contribution with increased bonus density (or FSR exclusions)
   - Minimum MMR unit threshold (with cash in lieu for smaller projects)
2. For rental projects, consider extending current 10% MMR requirement to life of building

Thank You

Financial Analysis for Inclusion of Mid-Market Rental Units in New Apartment Projects:

Summary Report

July 2018

Prepared for:
City of North Vancouver

By:

coriolis
CONSULTING CORP.

Table of Contents

1.0 Introduction

1.1 Background

In 2016, the City of North Vancouver established an inclusionary zoning (IZ) program that requires developers to provide below market units in new secured market rental projects. Under the program, new rental projects are required to allocate 10% of the units as Mid-Market Rental (MMR) units for ten years with the MMR unit rents set 10% below CMHC average rents in the City.

The City is concerned that the need for affordable rental housing is outpacing the creation of affordable rental units. Therefore, Council instructed staff to "bring forward new policies that ensure that all new multifamily developments in the City provide a minimum of 20% of new units at the MMR unit rents in perpetuity". Council also asked staff to investigate the opportunity for greater affordability in the MMR units by increasing the rent discount to 20% below market from the current 10% discount.

As input to the policy analysis, the City retained Coriolis Consulting Corp. to analyze the financial performance of different types of development projects in the City to determine whether it is financially viable for new projects to include MMR units and, if so, the share of total units that is likely viable.

The analysis will be used to inform two separate IZ policies that the City is considering:

- A potential requirement to include MMR units in new strata apartment projects.
- A potential expansion of the existing MMR unit requirement in new rental apartment projects to either include a higher share of MMR units or to secure the units for longer than ten years.

This report provides a summary of the analysis that we completed and identifies the key findings and recommendations. All of the financial analysis contained in this report is based on market conditions as of Q2 2018.

1.2 Professional Disclaimer

This document may contain estimates and forecasts of future growth and urban development prospects, estimates of the financial performance of possible future urban development projects, opinions regarding the likelihood of approval of development projects, and recommendations regarding development strategy or municipal policy. All such estimates, forecasts, opinions, and recommendations are based in part on forecasts and assumptions regarding population change, economic growth, policy, market conditions, development costs and other variables. The assumptions, estimates, forecasts, opinions, and recommendations are based on interpreting past trends, gauging current conditions, and making judgments about the future. As with all judgments concerning future trends and events, however, there is uncertainty and risk that conditions change or unanticipated circumstances occur such that actual events turn out differently than as anticipated in this document, which is intended to be used as a reasonable indicator of potential outcomes rather than as a precise prediction of future events.

Nothing contained in this report, express or implied, shall confer rights or remedies upon, or create any contractual relationship with, or cause of action in favor of, any third party relying upon this document.

In no event shall Coriolis Consulting Corp. be liable to the City of North Vancouver or any third party for any indirect, incidental, special, or consequential damages whatsoever, including lost revenues or profits.

2.0 Scope and Assumptions

1. The City wants to ensure that any new MMR unit requirement does not impact the financial viability of new development. The financial ability of new projects to provide affordable rental units is created by the value of any additional density that is available under the City's OCP (i.e., bonus density). The greater the value of the additional density, the greater the amount of affordable rental housing that can be provided by a project. Therefore, our analysis only focuses on projects that are in OCP designations where additional bonus density can be achieved through rezoning. We assume that projects which proceed under existing zoning or without any bonus density would not be expected to include MMR units. If MMR units were required at projects that are not seeking bonus density, it would significantly reduce the number of sites that are financially viable for redevelopment (which is not the City's objective).

2. The City is interested in determining whether projects can provide 20% of all units as MMR units so our analysis focuses on determining if this is possible.

3. The amount of affordable rental housing that is financially viable at individual projects will be influenced by factors that affect the cost of creating the units, such as the size of the MMR units and the mix of MMR units (studio, 1BR, 2BR, 3BR). Our analysis makes the following assumptions about unit mix and size.

Exhibit 1: MMR Unit Sizes and Distribution by Unit Type

Unit Type	Share of Units	Average Size (sf)
Studios	20%	425
1-Bedroom	50%	575
2-Bedroom	20%	775
3-Bedroom[1]	10%	1,000
Total	100%	628

4. The amount of affordable rental housing that is financially viable at individual projects will be influenced by factors that affect the value of the completed MMR units, such as rents and rent escalation. Our analysis makes the following assumptions:

   - MMR unit rents are set 10% below the CMHC average rent (by bedroom) type in the City of North Vancouver.
   - Starting rents are permitted to increase at CPI + 2% each year (consistent with the Residential Tenancy Act).
   - MMR rents are secured for the life of the building.

   The following table shows the assumed starting rents by unit type and the overall average rents.

Exhibit 2: MMR Unit Rents by Unit Type

Unit Type	Share of Units	Average Size (sf)	Rent per Month ($2018)
Studios	20%	425	$ 916
1-Bedroom	50%	575	$1,098
2-Bedroom	20%	775	$1,426
3-Bedroom	10%	1,000	$1,820
Total	100%	628	$1,199

[1] Under current City policy, a minimum of 10% of the units are required to be 3 bedroom units.

5. Strata projects that are seeking bonus density are required to make a community benefit contribution per square foot of bonus floorspace. The current rates are $25 per square foot of additional density between current zoned FSR and the base OCP density plus $175 to $190 per square foot of bonus floorspace (depending on location) beyond the base OCP density up to the maximum OCP density. Of this, 20% is allocated to the City's affordable housing reserve fund. Therefore, our analysis tests scenarios where the community benefit contribution is reduced by 20% as the MMR units are providing affordable housing. In addition, our analysis assumes that MMR floorspace is excluded from the community benefit contribution calculation.

3.0 Approach to Analysis

This section outlines the urban land economics rationale for the inclusion of affordable rental housing in new projects and then describes the approach we used for the financial analysis of each case study site that is summarized in this report.

3.1 Urban Land Economics Rationale

The reason that development projects are able, in financial terms, to provide amenities, such as affordable housing, in exchange for additional development rights is that the additional development rights achieved via rezoning (or bonus density zoning) have value. Otherwise, a developer could not absorb the cost the affordable housing.

When a developer acquires a development site, the developer is buying land of course, but in land economics terms the developer is buying the development entitlements that go along with the land (in the form of zoning). The amount a developer is able to pay for a property is in large part a function of the type and amount of development likely to be approved and the anticipated financial performance of that development.

To illustrate the impact of an affordable housing requirement in land economics terms, Exhibit 3 shows simplified financial analysis for a hypothetical development project (in this case a strata apartment development) under three different scenarios:

- The first scenario assumes the site is zoned for 75 strata apartment units.
- The second scenario assumes the site is up-zoned to allow 100 strata apartment units with no affordable housing (and no community benefit contribution).
- The third scenario assumes the site is up-zoned to allow 100 apartment units with a requirement that 10% of the units are MMR units.

The site is assumed to be improved with an existing commercial building that has a market value of about $16 million based on the net income generated by the building (i.e. the value of the property if sold to an investor). In all three scenarios, the site size, the assumed average selling price of individual units (measured in dollars per square foot), and the assumed construction cost (measured in dollars per square foot) are the same.

Exhibit 3: Redevelopment Economics for Hypothetical Apartment Project (illustrative only)

	Scenario 1 Site zoned for 75 unit apartment project	**Scenario 2** Site up-zoned to 100 units, no MMR units	**Scenario 3** Site up-zoned to 100 units with 10% MMR units (10 units)
Revenue			
Strata Units ($950K per unit)	$71,250,000	$95,000,000	$85,500,000
MMR Units ($250K per unit)	$0	$0	$2,500,000
Total Revenue	$71,250,000	$95,000,000	$88,000,000
Less Costs			
Marketing/commissions (5% of strata revenue)	$3,560,000	$4,750,000	$4,275,000
Cost of rezoning	0	$250,000	$250,000
Hard & soft costs strata units ($575K per unit)	$43,125,000	$57,500,000	$51,750,000
Hard & soft costs MMR units ($375K per unit)	$0	$0	$3,750,000
Less Profit Allowance (15% of costs)	$9,290,000	$12,390,000	$11,475,000
Equals Land Value Supported by Development	**$15,275,000**	**$20,110,000**	**$16,500,000**
Value under existing use	$16,000,000	$16,000,000	$16,000,000
Increase over existing value	negative	$4,110,000	$500,000
Viable for redevelopment	no	yes	yes

Scenario 1 is the base case and shows how this project performs, in financial terms, under existing zoning. The developer in this case earns a typical profit margin (calculated as a margin of 15% of total costs), if the developer pays a maximum of $15.3 million for the site. However, the existing use supports a value of about $16 million (if sold to an investor) so the site is not attractive for redevelopment at the required profit margin. It is important to note that this is not always the case as some sites are financially attractive for redevelopment under existing zoning. However, this result is often the situation for existing low density commercial buildings.

Scenario 2 shows how the project would perform if the site is rezoned to allow a higher density project without providing any affordable housing (or a community benefit/amenity contribution). The project is bigger so the total revenue from unit sales, total cost, total profit, and total supportable land value are of course higher (proportionately). However, it is important to note that the profit margin is the same (15% of costs). The developer's ability to pay for the property increases to $20.1 million (or $4.1 million more than the existing value of $16 million) because it allows a larger project (more density). This is higher than the site's value under existing use as a commercial investment property, so there is an incentive for the existing owners to sell and the site is now financially attractive for redevelopment.

In this case, the rezoning creates additional density and value which makes a site viable for redevelopment that was not viable for development under existing zoning (Scenario 1). The question now is whether the project can also support affordable housing (or an amenity contribution).

Scenario 3 shows how the project would work if the site is rezoned with a requirement for 10% of the units to be MMR units. The project is now the same size as in Scenario 2, but the value of the MMR units is lower than the strata units so the total revenue in Scenario 3 is lower. This illustrates that:

- The project is still financially viable to the developer.
- The project includes 10 MMR units (10%).
- The developer can afford to pay $16.5 million, which is slightly higher than the $16 million existing property value. This still creates the opportunity for the developer to offer an incentive to the existing property owner to make their property available for redevelopment.

It is important to note that if the municipality required significantly more MMR units than in Scenario 3 (say 20 MMR units), then the rezoning would not be financially attractive for the developer as the total project revenues would be too low to allow the developer to acquire the site at its current value ($16 million) and earn the required profit margin.

These scenarios illustrate key points about rezonings and affordable housing requirements:

1. The inclusion of the affordable units does not change the price of the market units (the market units in Scenario 3 sell for the same price as in the other scenarios) because prices are set by supply and demand in the marketplace.

2. With the affordable housing requirement, the rezoning is still attractive to the developer, who earns the same profit margin in Scenarios 2 and 3 (15% of costs). The difference is that the developer cannot pay the same amount to the land owner in Scenario 3 as in Scenario 2.

3. Land owners often require an incentive to sell their property (particularly if the site is not vacant). The financial impact of the affordable housing requirement should be less than the additional value created by the rezoning to create an incentive for the property owner to sell to the developer.

4. The additional land value created by bonus density:

    - Can make redevelopment of a site financially viable when it is not viable under existing zoning.
    - Creates the potential for the inclusion of affordable housing units or the potential for a community benefit/amenity contribution (or both).
    - Creates an incentive to the existing owner to sell the property for redevelopment, if the affordable housing requirement is set appropriately.

5. The amount of the affordable housing is limited by the value created by the additional bonus density.

3.2 Approach to Financial Analysis for Case Study Sites

To estimate the amount of MMR housing that is supportable at new apartment projects, we analyzed the financial viability of redevelopment of a variety of different case study sites in the City. Our analysis considered the following key factors:

1. Some projects will have the financial room to provide a greater share of MMR units than other projects due to the amount of bonus density permitted under the OCP and/or the cost of creating the MMR units (for example, MMR creation costs will be lower for woodframe projects than concrete projects). Therefore, we considered the affordable rental housing potential at a cross section of sites varying by geography and OCP designation.
2. Requiring MMR units within all new projects will necessarily involve trade-offs as an increased requirement for MMR units will reduce the financial room for projects to make contributions to other community benefits. Therefore, our analysis tests the impact of reduced community benefit contributions on the ability to provide MMR units.
3. The City could allow additional bonus density (beyond the OCP maximum) to increase the opportunity for MMR units. Therefore, our analysis tests the impact of increased permitted density on the ability to provide MMR units.

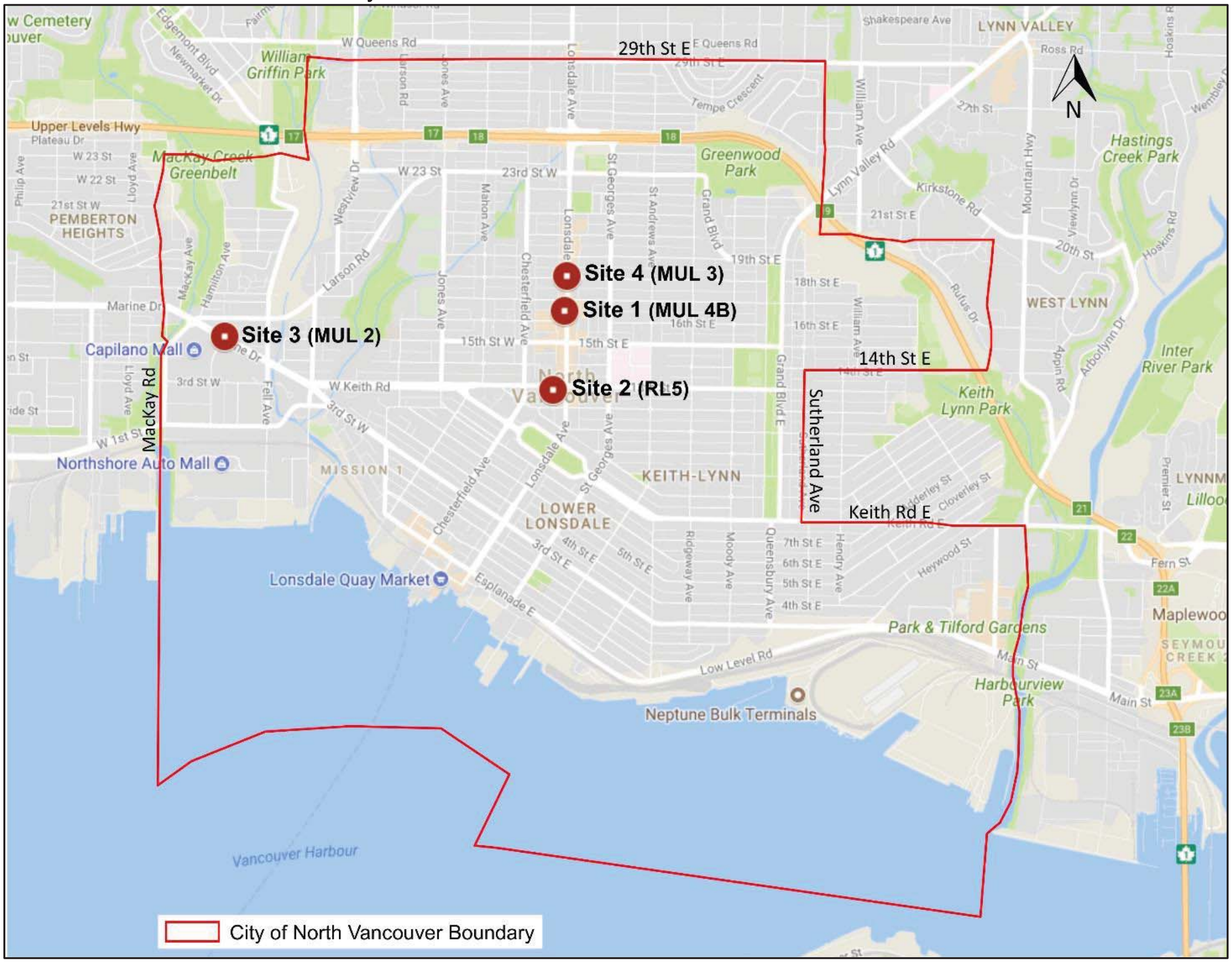
We identified four case study sites for the financial analysis. The sites are improved with older, low density improvements, similar to the types of properties that have been the focus of redevelopment in the City. The four sites were selected to represent a cross-section of the different OCP designations (with different amounts of potential bonus density) and locations in the City where development has been occurring or is anticipated to occur over time. The four case study sites are summarized in Exhibit 4.

Exhibit 4: Case Study Sites for Analysis

Site	Location	Site Size (sf)	Existing Zoning	OCP Designation	Base OCP Density (FSR)	Maximum OCP Bonus (FSR)	Total Maximum Density (FSR)
1	1600 Block Lonsdale	25,184	C1-A	Mixed Use Level 4b	3.0	1.0	4.0
2	100 Block West 13th Street	20,918	RM1	Residential Level 5	1.6	1.0	2.6
3	800 Block Marine Drive	25,944	CS-1	Mixed Use Level 2	2.0	0.5	2.5
4	1800 Block Lonsdale	18,117	C2	Mixed Use Level 3	2.3	0.5	2.8

The location of each site is shown in Exhibit 5.

Exhibit 5: Location of Case Study Sites



We used the financial analysis to model the likely performance of redeveloping each site at the densities permitted in the Official Community Plan (OCP) under two different tenure scenarios: (a) assuming strata apartment (or mixed use) development and (b) assuming 100% purpose built secured rental development.

Our analysis for the strata and mixed use scenarios was completed in four main steps:

1. We estimated the existing land value of each case study in the absence of the bonus density available in the OCP.
2. We estimated the land value supported if the site was rezoned to the maximum identified in OCP assuming the project provided the community benefit contribution that is currently required for the bonus density[2].

[2] Contributions are currently set at $25 per square foot of bonus density between the current zoned density and the OCP Schedule A density (the base OCP density). For bonus density between the OCP Schedule A density and the maximum OCP bonus density (the OCP maximum) the contribution is set at $190 per square foot in Lonsdale Regional Town Centre and $175 per square foot elsewhere in the City.

3. We then estimated the land value supported if the site was rezoned with the maximum bonus identified in OCP under two different scenarios about the share of MMR units that would be included in the project:

   - 10% MMR units.
   - 20% MMR units.

   In these scenarios we tested different assumptions about the community benefit contribution[3]:

   - We tested the viability of requiring 100% of the existing required community benefit contribution.
   - We tested the impact of reducing the community benefit contribution by 20% as this is the portion of the community benefit contribution that is currently allocated to the City's affordable housing reserve fund.
   - We tested the impact of waiving the community benefit contribution to maximize MMR units.

4. We determined which MMR scenarios are financially viable. To be financially viable the estimated supportable land value in the MMR scenario needs to equal or exceed the the land value estimate at the base OCP density in step 1 (which often matches existing zoning at sites in the City). Otherwise, the property would be more valuable at the base density/existing zoning and developers would not have any incentive to rezone to obtain the bonus density permitted under the OCP.

   For selected scenarios where the MMR unit share was not financially viable, we completed sensitivity analysis to determine whether increasing the permitted density would make the project financially viable.

Our analysis for the rental apartment scenarios for each case study site was completed in three main steps:

1. We estimated the existing land value of each case study in the absence of the bonus density available in the OCP. This estimate assumed strata development (which supports a higher value than rental) as strata development at the base density sets the minimum value that a rental developer would need to pay to acquire the site.

2. We estimated the land value supported if the site was rezoned to the maximum identified in OCP assuming the project was 100% rental. For this step, we assumed there would be no community benefit contribution as the City's current policy does not require a community benefit contribution from secured rental projects. We analyzed three different MMR scenarios:

   - No MMR units.
   - 10% MMR units.
   - 20% MMR units.

3. We determined which MMR scenarios are financially viable. To be financially viable the estimated supportable land value in the MMR scenario needs to equal or exceed the land value estimate in step 1 at the base OCP density. Otherwise, the property would be more valuable at the base density and developers would not have any incentive to rezone to obtain the bonus density permitted under the OCP.

[3] All scenarios assume that the MMR floorspace is excluded from the community benefit contribution.

4.0 Summary of Financial Analysis

Because of the number of sites and scenarios analyzed, we have not included the detailed proformas for each site and each scenario in this report. We can make these available at the City's request. This section summarizes the results of our financial analysis.

4.1 Strata Apartment Development Scenarios

Exhibit 6 summarizes our estimates of supportable land value for each of the four sites assuming strata apartment development for four different redevelopment scenarios that include MMR units:

- Scenario 1 assumes 10% of the units are MMR units and the applicant makes a community benefit contribution at 100% of the current contribution rates[4].
- Scenario 2 assumes 10% of the units are MMR units and the applicant makes a community benefit contribution at 80% of the current contribution rates (as 20% of the required contribution is currently allocated to the affordable housing reserve fund).
- Scenario 3 assumes 20% of the units are MMR units and the applicant makes a community benefit contribution at 80% of the current contribution rates.
- Scenario 4 assumes 20% of the units are MMR units and the community benefit contribution is waived.

Each scenario is financially viable if the estimated supportable land value is equal to or higher than the land value at the base OCP density (which typically matches the density under current zoning). Otherwise, the property would be more valuable at the base density and developers would not have an incentive to rezone to obtain the bonus density permitted under the OCP. Scenarios are colour coded as follows:

- Figures are highlighted green if the scenario is financially viable.
- Figures are highlighted red if the scenario is not financially viable.
- Figures are highlighted yellow if the scenario is close to being viable (minor changes in revenue or costs would make the scenario viable).

[4] Contributions are currently set at $25 per square foot of bonus density between the current zoned density and the OCP Schedule A density (the base OCP density). For bonus density between the OCP Schedule A density and the maximum OCP bonus density (the OCP maximum) the contribution is set at $190 per square foot in Lonsdale Regional Town Centre and $175 per square foot elsewhere in the City.

Exhibit 6: Summary of Financial Analysis for Strata Apartment Scenarios (all figures in $millions)

Site	OCP Designation	OCP Base FSR	OCP Base Land Value	OCP Maximum FSR	1 Max OCP Density 10% MMR 100% of Community Benefit Contribution	2 Max OCP Density 10% MMR 80% of Community Benefit Contribution	3 Max OCP Density 20% MMR 80% of Community Benefit Contribution	4 Max OCP Density 20% MMR 0% of Community Benefit Contribution
1	MUL4B	3.0	$17.9	4.0	$18.7	$19.4	$17.0	$18.5
2	RL5	1.6	$9.4	2.6	$8.9	$9.5	$7.7	$9.4
3	MUL2	2.0	$22.0	2.5	$21.3	$22.0	$20.7	$22.4
4	MUL3	2.3	$12.2	2.8	$11.7	$11.9	$11.2	$11.4

The key findings can be summarized as follows:

- Only one of the four sites is financially viable for development at the maximum OCP density with 10% MMR units, assuming the full community benefit contribution is required on the bonus density (excluding the MMR floorspace).
- If the community benefit contribution is reduced by 20% (the portion that currently goes to the affordable housing reserve fund), three of the four sites are financially viable for development at the maximum OCP density with 10% MMR units (and one site is close to being viable).
- With 20% MMR units, none of the sites are financially viable for development if the community benefit contribution is 80% of the current rate.
- With 20% MMR units, three of the four sites are financially viable for development if the community benefit contribution is waived.

Therefore, our analysis indicates that the City would need to waive the current community benefit contribution in order for most strata rezonings (seeking bonus density) to provide 20% of all units as MMR units. As an alternative to waiving the community benefit contribution, the City could consider increasing the amount of bonus density that is permitted in order to achieve 20% MMR units. Sensitivity analysis that we completed (not shown in Exhibit 6) indicates that highrise sites would require roughly 0.8 FSR to 1.0 FSR of additional density beyond the OCP maximum in order to make 20% MMR viable, assuming a community benefit contribution equal to 80% of the current rate. However, this is only possible at sites that are identified for taller buildings as the increased FSR would not be achievable without significant height increases.

A target of 10% MMR is viable at most strata projects (at the OCP maximum densities) if:

- The community benefit contribution is reduced by 20%
- The MMR floorspace is excluded from the community benefit contribution.

However, it should be noted that even with the reduced community benefit contribution and the exclusion of the MMR floorspace from the community benefit calculation, some projects may not be able to provide 10% MMR units due to the limited amount of bonus density available in some OCP designation (e.g., concrete midrise projects in the MUL3 designation which are only eligible for a 0.5 FSR density bonus).

4.2 Rental Apartment Development Scenarios

Exhibit 7 summarizes our estimates of supportable land value for each of the four sites assuming rezoning for rental development for three different redevelopment scenarios that include MMR units:

- Scenario 1 assumes none of the rental units are MMR units.
- Scenario 2 assumes 10% of the units are MMR units.
- Scenario 3 assumes 20% of the units are MMR units.

Each scenario assumes that no community benefit contribution is provided for the bonus floorspace (which is consistent with the City's current policy).

A scenario is financially viable if the estimated supportable land value is equal to or higher than the land value at the base OCP density (which typically matches the density under current zoning). Otherwise, the property would be more valuable at the base density and developers would not have an incentive to rezone to obtain the bonus density permitted under the OCP. Scenarios are colour coded as follows:

- Figures are highlighted green if the scenario is financially viable.
- Figures are highlighted red if the scenario is not financially viable.
- Figures are highlighted yellow if the scenario is close to being viable (minor changes in revenue or costs would make the scenario viable).

Exhibit 7: Summary of Financial Analysis for Rental Apartment Scenarios (all figures in $millions)

Site	OCP Designation	Existing Rental Building On Site	OCP Base FSR	OCP Base Land Value	OCP Maximum FSR	1 Max OCP Density No MMR	2 Max OCP Density 10% MMR	3 Max OCP Density 20% MMR
1	MUL4B	No	3.0	$17.9	4.0	$10.0	$7.8	$0.9
2	RL5	Yes	1.6	$9.4	2.6	$11.4	$9.9	$8.5
3	MUL2	No	2.0	$22.0	2.5	$23.9	$21.2	$13.9
4	MUL3	No	2.3	$12.2	2.8	$11.0	$9.9	$6.6

The key findings can be summarized as follows:

- Rental development is financially viable at RL5 sites that are currently improved with existing older rental buildings (Site 2). The City's existing policies do not provide bonus density for strata rezonings at sites that are currently improved with a rental building. Bonus density is only supported at these sites if the rezoning is a 100% rental project. This has a downward influence on a property's value at the base OCP density which improves the viability of rental development. Our analysis indicates that it is financially viable for rental rezonings of these RL5 properties to include 10% of the units as MMR units for the life of the building (up from the current policy of 10 years). However, 20% MMR is not financially viable.
- Rental development is financially viable at MUL2 sites (Site 3) assuming woodframe construction for the residential portion. However, inclusion of 10% MMR units (for the life of the building) is not financially viable. A 10% MMR requirement would require increased permitted density. This could change over time if market rental rates continue to increase.
- Rental development is not financially viable at the OCP maximum density at sites where the density results in concrete construction (Sites 1 and 4). The high cost of concrete construction generally makes it financially challenging to proceed with a rental project without increased permitted density beyond the current OCP maximums. The possible exception to this would be sites that that are currently improved

with an existing rental building (so bonus density is not permitted unless the project is 100% rental) and are in an OCP designation that allows a large amount of bonus density (such as RL6 and MUL4).

Therefore, our analysis indicates that renal projects in the City cannot provide 20% of total units as MMR units. However, the City could expand the 10% MMR unit require in rental rezonings from the current 10 year requirement to the life of the building for rezonings of sites that currently include older rental buildings.

It should be noted that rental projects on sites which are not already improved with an older existing rental building may not be able to provide 10% MMR units without an increase in the permitted density beyond the current OCP maximum as these sites have a higher land value at the base OCP density than sites which are already improved with a rental building (due to the City's bonus density polices for sites improved with existing rental).

5.0 Other Factors to Consider

In addition to the results of the case study financial analysis, there are other factors that the City should consider when deciding whether to expand the current MMR unit requirements, including:

1. **Administration and enforcement**. If the City requires an increased MMR unit requirement, there will be an increased administrative and legal load on City staff to ensure that MMR units are being rented at the correct rental rates and that the units are being made available to the intended income groups. There will also be a need to negotiate with developers during the rezoning process about the location of the MMR units in the project, the mix of bedroom types, and unit sizes.
2. **Minimum MMR unit threshold**. Given that inclusion of MMR units will require negotiation with developers about unit sizes, mix and location and will increase the administration and legal load on the City, the City may want to establish a minimum MMR unit threshold, below which projects would provide cash-in-lieu of MMR units. The cash-in-lieu could be allocated to the City's affordable housing reserve fund.
3. **Viability of rental development**. The financial viability of most rental apartment projects is marginal. Small increases in construction costs, cap rates or interest rates can have a significant impact on the viability of rental projects. Therefore, the City should monitor the impact of any MMR requirements on the viability of new rental development and be prepared to revise the MMR unit policies as-needed if there is a change in market conditions.
4. **Potential exceptions**. Every project is unique and it may not be financially viable for some projects to provide MMR units due to unique circumstances (such as limited opportunity for bonus density or unusual/unique development costs associated with the project). Therefore, the City should consider a mechanism to consider approval of projects that cannot meet an MMR requirement.
5. **Impact on strata development site land values**. We would expect an MMR unit requirement to have a downward influence on the value of existing strata development sites in the City. Therefore, any introduction of a new requirement should include a grace period for projects that are currently being planned. If the existing MMR unit requirements are increased, the City should ensure that all stakeholders (property owners, real estate industry professionals, developers, etc.) are aware of the proposed changes to the existing policy. In addition, developers should be given significant notice before any changes are implemented. This will give applicants that have already purchased property the opportunity to make an application under the existing policies without facing the financial impact associated with an expanded MMR unit requirement.
6. **Updates to community benefit contribution rates**. If an MMR unit requirement is established for strata rezonings, any future updates of the City's community benefit contribution rates will need to be calibrated to incorporate the financial impact of the required MMR units. This will make updating the rates more complex in the future.

6.0 Conclusions

1. For strata residential rezonings seeking bonus density, our analysis indicates that the City could consider:
   a) An MMR unit requirement up to a maximum of 10% of total units in a project, assuming:
      - The existing portion of the community benefit contribution that is allocated to the affordable housing reserve fund (20%) is waived.
      - MMR unit floorspace is excluded from the community benefit contribution calculation.

   b) An MMR unit requirement up to a maximum of 20% of total units in a project, assuming:
      - The existing community benefit contribution is waived, or
      - Increased density beyond the current OCP maximum is permitted. The amount of the increased density required would vary by existing OCP designation, zoning district, and the amount of the required community benefit contribution.

   c) Establishing a minimum threshold for the number of MMR units to be provided, below which cash-in-lieu would be provided
2. For rental apartment rezonings seeking bonus density, the City could consider extending the current 10% MMR unit requirement from a term of 10 years to the life of the building. Any MMR requirement beyond 10% is not financially viable for rental rezonings. For concrete rental projects, the City should also consider permitting increased density beyond the current OCP maximums to facilitate the provision of 10% MMR units.
3. Any new MMR unit requirements should include a grace period for projects that are currently being planned. If the existing MMR unit requirements are increased, the City should ensure that all stakeholders (property owners, real estate industry professionals, developers, etc.) are aware of the proposed changes to the existing policy. In addition, developers should be given significant notice before any changes are implemented. This will give applicants that have already purchased property the opportunity to make an application under the existing policies without facing the financial impact associated with an expanded MMR unit requirement.
4. The City should monitor the impact of any MMR requirements on the viability of new development (particularly rental development) and be prepared to revise the MMR unit policies as-needed if there is a change in market conditions.
5. The City should ensure than any future updates of the current community benefit contribution rates take into account the financial impact of any MMR unit requirement.
6. If the City expands the current MMR requirements, it should also consider a mechanism to consider the approval of projects that cannot meet an MMR requirement due to unique project circumstances (such as limited opportunity for bonus density or unusual/unique development costs associated with the project that are achieving other public benefits).

Richmond Affordable Housing Strategy	No.: INFO-21 Date: 2008-06-04 Revised: 2018-03-20

Purpose:

To inform all applicants for Rezoning, Subdivision and Development Permit applications about changes the City of Richmond Affordable Housing Strategy's policies. The Affordable Housing Strategy can be found online at www.richmond.ca/plandev/socialplan/housing/strategy.htm.

The West Cambie Alexandra Neighbourhood has a number of its own affordable housing calculations, which are detailed in the Area Plan. The City of Richmond Affordable Housing Strategy otherwise applies. The West Cambie Area Plan can be found online at www.richmond.ca/cityhall/bylaws/ocp/sched2.htm.

Background:

As with all lower mainland municipalities, the City of Richmond has been experiencing an increasing need for additional affordable housing for its citizens. Richmond's housing sector has seen significant and continued growth, resulting in the escalation of real estate prices and rental rates alike. These rising costs have proven out of reach for an increasing number of Richmond citizens.

The updated Affordable Housing Strategy was adopted by Council on March 12, 2018. A central focus of this Strategy is to ensure that the City is successful in providing a range of housing options for households of different ages, family types and incomes. The Strategy identified 5 Strategic Directions for the next 10 years, including: Use regulatory tools to encourage a diverse mix of housing types and tenures, maximize use of city resources and financial tools, build capacity with non-profit housing and service providers, facilitate and strengthen partnership opportunities, increase advocacy and education roles.

The updated Affordable Housing Strategy identifies the following priority groups in need:

- Families;
- Low-to-moderate income households;
- Persons with disabilities;
- Seniors;
- Vulnerable groups including households on fixed incomes, persons experiencing homelessness, women and children experiencing family violence, persons with mental health and addictions issues, and Aboriginal populations.

The Strategy recognizes that the City alone cannot adequately address the affordable housing needs of its citizens and substantial support and cooperation is required from other levels of government, non profit organizations, and the development community in order to comprehensively address these needs.

Affordable is defined as meaning that no more than 30% of the gross income of a household is spent on housing costs (excluding cablevision, telephone, other telecommunications and utility fees).

Affordable Housing Strategy Implementation:

Effective July 24, 2017, Richmond City Council has adopted the following policy changes:

Rezoning Applications

- All cash-in-lieu contributions, when applicable, towards the City's Affordable Housing Reserve are required in exchange for the increased density proposed as part of a rezoning application. The cash contributions are based on the following amounts:

Housing Type	New Rate (as of July 27, 2017)	Previous Rate
Single Family	**$4** per buildable ft^2	**$2** per buildable ft^2
Townhouse	**$8.50** per buildable ft^2	**$4** per buildable ft^2
Apartment and mixed-use developments involving 60 or less residential units	**$14** per buildable ft^2 (concrete construction) **$10** per residential ft^2 (wood-frame construction)	**$6** per buildable ft^2

Applications received **prior** to the adoption date (July 24, 2017) will be grandfathered under the previous contribution rates per the above table provided the application is presented to Council for consideration within 1 year of the effective date of the revised policy (i.e. July 24, 2018). All applications received **after** July 24, 2017 will be subject to the new rates.

Larger Apartment Rezoning Applications

- To achieve a proposed density envisioned as part of a rezoning application, each multi-family or mixed-use development containing more than **60** residential units are asked to:
  - Build at least 10% of the total residential building area (based on the residential Floor Area Ratio), with a minimum 4 units, as low end market rental units;
  - Affordable housing unit types and location within the proposed development will be determined in consultation with the City's Affordable Housing staff;
  - To ensure that these units are secured for low end market rental purposes, a Housing Agreement will be registered on title through the rezoning process;
  - Set a minimum target of securing 15% 2BR and 5% 3BR LEMR units. For developments providing 30+ LEMR units, the City will target a higher proportion of family-friendly units;
  - The City will not consider a "den" as a 3rd BR for LEMR units. (IE 2 BR+ Den).

Applications received **prior** to the adoption date (July 24, 2017) will be grandfathered under the previous built unit requirement of **5%** of the total residential building area provided the application is presented to Council for consideration within 1 year of the effective date of the revised policy (i.e. July 24, 2018). All applications received **after** July 24, 2017 will be subject to the new **10%** built unit requirement.

Single Family Rezoning Applications

- The City utilizes a density bonusing approach for all single-family residential rezoning applications. As of July 24, 2017, the options for single family rezoning applications are:
  - All single family lots being rezoned in order to facilitate a subdivision are required to ensure that 100% of the new lots being created through the subdivision will include a single family dwelling with a secondary suite or a single family dwelling with a coach house unit; or
  - 50% of the new lots being created through the subdivision will include a single family dwelling with a secondary suite or coach house and a cash-in-lieu contribution of **$4** per total buildable square foot on the remaining **50%** of the lots to be provided towards the Affordable Housing Reserve Fund; or
  - A cash-in-lieu contribution of **$4** per total buildable square foot to the Affordable Housing Reserve Fund for the single family lots that cannot accommodate the provision of built secondary suites.

How are affordable housing cash-in-lieu contributions used?

- The City will utilize these cash-in-lieu contributions, deposited into the Affordable Housing Reserve Fund, to work with senior levels of government and community-based groups to provide affordable subsidized housing units in the City.

What is a Housing Agreement?

- A Housing Agreement is a contractual agreement between the property owner and the City of Richmond, which is registered on title and serves to ensure that the affordability terms established by the City remain in effect.
- The principal intent of the Housing Agreement is to specify rental rates and occupant income by unit type in perpetuity. It also establishes penalties if the terms of the agreement are breached.
- The terms and conditions of the Housing Agreement must be agreed to by the applicant prior to forwarding the proposed rezoning application to Council. Prior to execution of the Housing Agreement and registration on title, Council must adopt the Housing Agreement through the municipal bylaw process.

Unit Size, Maximum Rent & Eligible Tenant Annual Income

The following updates to the requirements for low-end market rental units are as follows:

Unit Type	Minimum Unit Sizes	Current LEMR Maximum Rents*	Total Household Annual Income[1]*
Studio	37 m^2 (400 ft^2)	$811/month	$34,650 or less
1BR	50 m^2 (535 ft^2)	$975/month	$38,250 or less
2BR	69 m^2 (741 ft^2)	$1,218/month	$46,800 or less
3BR	91 m^2 (980 ft^2)	$1,480/month	$58,050 or less

Notes:

[1] Subject to Council approval, total annual household incomes and maximum monthly rents may be increased annually by the Consumer Price Index.

* Denotes 2017 amounts adopted by Council on July 24, 2017.

Affordable Housing Coordinator:

For additional information on the City's Affordable Housing Strategy, please contact the Affordable Housing Coordinator at 604-247-4916.

Strategic Direction 1:
Use Regulatory Tools to Encourage a Diverse Mix of Housing Types and Tenures

1.1 Low End of Market Rental (LEMR) unit contribution

Actions:
1–3 years

- Amend the LEMR policy to include: increase the built affordable contribution from 5% to 10% of total residential floor area, decrease in the threshold from 80 units to 60 units, flexibility to cluster or disperse LEMR units, and set minimum unit size targets so the LEMR units are not smaller than the average size of a comparable market unit in the development (in place as of July 24, 2017)
- Undertake further analysis on occupancy management practices and review potential LEMR policy changes
- Work with other municipalities in Metro Vancouver to explore a coordinated approach to incentivize non-profit management of units secured through development

Ongoing

- Review bi-annually the LEMR program, including maximum household income thresholds and rents
- Review bi-annually the overall built LEMR contribution and threshold requirement and assess with changing market conditions
- Review occupancy management challenges and opportunities as they arise, and review policies regularly to ensure issues are addressed