CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	July 11, 2017
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TO: Standing Committee on Policy and Strategic Priorities

FROM: General Manager of Planning, Urban Design and Sustainability

SUBJECT: 2017 Inflationary Rate Adjustments to Community Amenity Contribution (CAC) Targets

RECOMMENDATION

THAT Council approve the 2017 inflationary rate adjustments for Community Amenity Contribution (CAC) Targets with new target rates to be effective September 30, 2017, as shown in Appendix A.

REPORT SUMMARY

This report seeks Council approval to adopt an annual inflationary adjustment to CAC Targets with these new rates becoming effective September 30, 2017. A separate report for inflationary adjustments to Density Bonus Contributions will be presented to Council for referral to public hearing since these adjustments require zoning and development by-law amendments.

The 2017 inflationary rate adjustments recommended in this report represents an increase of 11.9%, reflecting increases in local assessed property values and local non-residential construction costs. By ensuring that rates and revenues keep pace with annual changes to property and construction costs, purchasing power is maintained and the City retains its ability to provide necessary growth-related amenities and infrastructure.

The proposed inflationary rate adjustments have been shared with development industry stakeholders (Urban Development Institute, National Association of Industrial and Office Properties, Greater Vancouver Homebuilders Association) and at the time of finalizing this report written responses had not been received.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

In June 2003, Council adopted the Financing Growth Policy that sets the framework for the collection and allocation of DCLs to help pay for eligible capital facilities needed for growth:

parks, housing, childcare, and engineering infrastructure. The Policy set the framework for City-wide Development Cost Levy (DCLs) rates, how DCL revenue is allocated, and established a policy for City-wide CACs.

In 2007, Council approved its first CAC Target area in Southeast False Creek.

In July 2008, Council approved an adjustment to City-wide DCL rates to reflect construction cost and property inflation with the implementation of these new rates to be effective in January 2010.

In October 2009, Council adopted the annual inflationary DCL rate adjustment system for all future rate adjustments to the City-wide DCL and Area Specific DCLs, with the new rates effective on September 30th of each year.

In 2013, Council approved CAC Targets in Cambie Corridor, Little Mountain Adjacent Area and Norquay Village.

In 2014, Council approved a CAC Target in Marpole and Council approved Density Bonusing Contributions in Marpole.

In May 2016, Council adopted the DCL annual inflationary rate adjustments system for Density Bonus Contributions and CAC Targets.

In July 2016, Council approved new inflation adjusted rates for all CAC Targets and density bonus zone contributions, including a one-time catch up for past inflation incurred since targets were established.

In July 2016, Council approved CAC Targets in Grandview-Woodland.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager and the General Manager of Planning, Urban Design and Sustainability RECOMMEND approval of the foregoing.

Vancouver's development contribution approach has evolved over time to respond to changing market conditions, regulatory environments and community needs. In recent years, the City has implemented a number of new CAC targets and Density Bonus Contributions which provide more certainty for new development and align with the provincial CAC guidelines introduced in 2014. As the use of these approaches has increased, there has been a reduced need for negotiated CACs. The City's increased use of pre-set contributions is intended to enhance predictability for the development industry, and support a growing city through expediting housing supply and enabling economic development and job growth.

As part of the upcoming Cambie Corridor Planning Program: Phase 3 (now anticipated for presentation to Council in the first quarter 2018), the City will be recalibrating CAC Targets and Density Bonus contribution rates in the Cambie Corridor and adjacent Marpole area. The recalibration of rates will be established by updating public benefit strategy growth costs and testing development viability for appropriate growth cost recovery. Based on preliminary information, it is anticipated that the rates in these two areas could require further increases. Over the next few months, staff will review progress made on the draft Cambie

Corridor Phase 3 Public Benefit Strategy (PBS) and may return to Council in fall 2017 with interim recalibrated rates provided that there is sufficient information in the interim PBS to adjust rates ahead of the delivery of the Cambie Corridor Phase 3 plan.

REPORT

Background/Context

This report proposes this year's annual inflationary rate adjustment to CAC Targets. A separate report for inflationary adjustments to Density Bonus Contributions will be presented to Council for referral and public hearing as these adjustments require zoning and development by-law amendments.

Vancouver's development contribution approach has evolved over time to respond to changing market conditions, regulatory environments and community needs. In recent years, the City has implemented a number of new CAC Targets which provide more certainty for new development and align with provincial CAC guidelines introduced in 2014.

In October 2009, Council adopted the annual inflationary DCL rate adjustment system for all DCL districts in the city. The system uses an annual inflation index based on property value and construction costs to establish the rate.

The annual rate adjustment is initiated with a report to Council in either June or July proposing new DCL rates adjusted for inflation. If approved, these new rates come into effect annually on September 30th. The annual system is based on local and national best practices; uses publicly accessible, third party data; and, provides transparent and accessible calculations. It also considers changing market conditions through a review of local economic indicators, such as housing starts and local GDP forecasts, so that DCL rates do not get ahead of inflationary trends.

The DCL rate adjustment system commenced for all DCL Districts in 2010 and annual DCL adjustments have been adopted by Council every year since. Since 2010, the average annual rate adjustment has been approximately 4.2% (see Table 1), noting that a similar inflationary rate adjustment of 10.3% occurred in 2012. The system provides more predictability to both the development industry and the City, and having smaller annual increases has been broadly supported by industry stakeholders.

In May 2016, Council approved the adoption of the DCL rate adjustment system to CAC Targets and Density Bonus Contributions. In response to development industry feedback and to provide greater certainty, the City has expanded the use of CAC Targets and Density Bonus Contributions in planned areas such as: Cambie Corridor; Little Mountain Adjacent Area; Norquay Village; and certain districts in Marpole. As CAC Targets and Density Bonus Contributions had not been adjusted for inflation since they were established, Council approved a catch-up in July 2016 for past inflation as part of the annual inflationary rate adjustment, with the catch-up resulting in in area rates increasing between 8% and 25%. The inflationary rate adjustment system helps to maintain the purchasing power of DCLs, Density Bonus Contributions and CAC Targets for City investment in public amenities and infrastructure to support growth. In 2009, a similar one-time rate catch-up for DCLs was approved by Council when the inflationary adjustment system was first adopted.

Annual inflationary rate adjustments help keep development contributions aligned with current construction/property value inflation. Periodically, a more significant recalibration of these contributions (i.e. CAC Targets and Density Bonus Contributions) will be required as public benefit strategies and the capital program are updated. Typically, this type of update would also include a review of any potential impacts on development viability. With the Cambie Corridor Phase 3 plan nearing completion, both Cambie Corridor and Marpole rates will need to be recalibrated to align with the updated needs identified in the Public Benefit Strategy.

For more information on the Council approved annual inflationary rate adjustment system, see http://vancouver.ca/home-property-development/annual-inflation-index.aspx.

Recommended inflationary adjustments to CAC Targets are presented in Appendix A. For more information on CACs, see Appendix B.

Strategic Analysis

The recommendations in this report will bring all CAC Targets in line with the most recent property and construction cost inflation. By ensuring that rates and revenues keep pace with annual changes to property and construction costs, purchasing power is maintained and the City retains its ability to provide necessary growth-related amenities.

CAC Targets were last adjusted under the annual inflationary DCL rate adjustment system on September 30, 2016.

Vancouver's inflationary index blends third-party, property inflation (BC Assessment property roll[1]) and construction cost inflation (Statistics Canada Non-Residential Construction Price Index for Vancouver[2]) based on city costs for acquiring land and constructing public amenities and infrastructure identified in the 2015-2018 Capital Plan. The 2017 index shows a 29.2% increase in local assessed property values and a 6.1% increase in local non-residential construction costs. This year's increase to property values and construction costs is roughly three times higher than the average inflation experienced since 2010. The overall 11.9% inflationary rate adjustment is a result of this blended calculation. Since 2010, the average annual rate adjustment has been approximately 4.2% (see Table 1), noting that a similar inflationary rate adjustment of 10.3% occurred in 2012.

Table 1 shows annual inflationary rate adjustments from 2010 to 2017. Overall inflation was negative in 2010 reflecting the global and local economic slowdown during this period. In 2011 and 2012 inflation rebounded reflecting increased property values and construction costs. In 2013 and 2014, inflation was more modest reflecting a slower but steady rate of economic growth. Since 2015, local construction activity has been brisk which has resulted in higher property and construction cost indicators (see page 7 for details on economic indicators). Linking Density Bonusing Contributions to an annual inflationary index means that when annual inflation is positive, contributions might increase and when inflation is negative, contributions might decrease.

[1] BC Assessment Property Roll for the City of Vancouver, 2017
[2] Statistics Canada Non-Residential Construction Price Index for Vancouver, 2017

Table 1 also shows the two main data sources used to calculate the index: property values (BC assessment net property values for the City of Vancouver); and, construction costs (Statistics Canada non-residential construction price index for Vancouver annually). The inflationary index blends the two sources of inflationary data using the ratio of property acquisition and non-residential construction costs set out in the City's Capital Plan. Updated rates are established from this system.

Table 1: Annual Inflationary Rate Adjustments

Annual Rate Adjustment		***Data used to calculate index*** *(for information only)*	
Year	**Annual inflationary rate adjustments**	*Local Property Value Inflation*	*Local Construction Cost Inflation*
2010	-1.4%	*1.5%*	*-6.8%*
2011	8.8%	*11.4%*	*3.9%*
2012	10.3%	*13.7%*	*4.2%*
2013	1.4%	*1.3%*	*1.3%*
2014	1.6%	*0.8%*	*3.0%*
2015	3.4%	*8.6%*	*1.7%*
2016	4.6%	*16.5%*	*0.6%*
2017	**11.9%**	***29.2%***	***6.1%***

Note: Vancouver's DCL rates have used this index to adjust rates since 2010. CAC Targets and Density Bonus Contributions were adjusted for the first time in 2016.

For more information on the annual inflation index: http://vancouver.ca/home-property-development/annual-inflation-index.aspx

Proposed Inflationary Adjustment to CAC Targets (2017)

Below are the proposed inflation adjusted CAC Targets to take effect on September 30, 2017.

Table 2: Inflation Adjusted CAC Targets
($/sq.ft. on net additional density)

CAC Target	**Year Established**	**Current CAC Target**	**Inflationary Increase (2016-2017)**	**Recommended 2017 CAC Target**
Grandview-Woodland: Nanaimo St/East 12th Ave shopping nodes	2016	**$60.00**	+$7.13	**$67.13**
Grandview-Woodland: Mid-rise Multi-family sub-areas	2016	**$20.00**	+$2.38	**$22.38**
Grandview-Woodland: Lower Density Townhouse/Multi-family sub-areas	2016	**$3.00**	+$0.36	**$3.36**
Marpole	2014	**$59.48**	+$7.07	**$66.55**
Cambie Corridor	2013	**$60.94**	+$7.24	**$68.18**

Norquay (Kingsway C-2)	2013	**$11.08**	+$1.32	**$12.40**
Little Mountain Adjacent	2013	**$25.48**	+$3.03	**$28.51**
Southeast False Creek	2007	**$14.32**	+$1.70	**$16.02**

Economic Indicators and Development Viability

As part of the annual inflationary adjustment process, current economic indicators are reviewed to verify that the proposed rate adjustments are in line with current local market trends and forecasts. Current trends and forecasts indicate the following:

- The Conference Board of Canada[3] is forecasting 2.4% and 2.5% growth in Vancouver CMA's Real Gross Domestic Product (GDP) for 2017 and 2018 respectively. Vancouver GDP growth will come in second place amongst Canada's 13 largest cities. Over the next year, Vancouver is forecast to be within the top performing economies of major Canadian cities.
- Employment growth is forecast to slow to about 14,000 new jobs this year after a record 61,000 jobs were added in 2016. The unemployment rate will fall from 5.5% this year to 5.2 % in 2018[3].
- According to City of Vancouver data, the value of year-to-date building permits issued (as of April 2017) was generally in line with last year's value, decreasing slightly by 2.8%[4]. However the year to date value is 17% higher than the average value over the last 5 years;
- Year-to-date housing starts in the City (as of April 2017) are lower compared to last year's record breaking year (total of semi-detached, townhouse and apartment units), but are generally in line with the average of the previous 5 years[5]; and,
- The City has increased capacity for redevelopment through new community plans, new district schedules and rezonings.

These indicators suggest that the recommended inflation adjusted rates for Vancouver are in-step with the overall direction of the economy and the real estate development industry.

In-Stream Rate Protection

For CAC Target increases, the City provides in-stream rate protection for rezoning applications that have been submitted prior to a rate change (provided that the application has been submitted to the City).

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[3] Conference Board of Canada, Metropolitan Outlook 1, Spring 2017.
http://www.conferenceboard.ca/e-library/abstract.aspx?did=8870

[4] City of Vancouver, Statement of Building Permits Issued, April 2017
http://vancouver.ca/files/cov/statement-of-building-permits-issued-april-2017.pdf

[5] CMHC, Housing Starts, April 2017
https://www.cmhc-schl.gc.ca/odpub/esub/64175/64175_2017_M05.pdf

Further Recalibration of Rates

As part of the upcoming Cambie Corridor Planning Program: Phase 3 (now anticipated for presentation to Council in the first quarter 2018), the City will be recalibrating CAC Targets and Density Bonus contribution rates in the Cambie Corridor and adjacent Marpole area. The recalibration of rates will be established by updating public benefit strategy growth costs and testing development viability for appropriate growth cost recovery. Based on preliminary information, it is anticipated that the rates in these two areas could require further increases. Over the next few months, staff will review progress made on the draft Cambie Corridor Phase 3 Public Benefit Strategy (PBS) and may return to Council in fall 2017 with interim recalibrated rates provided that there is sufficient information in the interim PBS to adjust rates ahead of the delivery of the Cambie Corridor Phase 3 plan.

Implications/Related Issues/Risk

Financial

Rate adjustments for CAC Targets have financial implications for the City and the development industry.

Financial Implications for the City

Development contributions such as DCLs, CACs and Density Bonus Contributions are the primary funding source for public amenities and infrastructure necessary to support growth, thereby reducing the impact on property taxes and other City funding sources.

As per Council policy, the rates are adjusted annually to keep pace with local construction and property inflation and to preserve the City's ability to deliver much needed public amenities and infrastructure. Should Council approve the proposed rate adjustments, and assuming development activity remains steady, an additional $1.0 million in annual CAC Targets could be secured once the inflationary rate adjustment takes effect.

Financial Implications for Development

The City's Financing Growth policies are based upon the principle that development contributions should not deter growth or harm housing affordability. Independent review of the market impacts of development contributions found the primary impact of these in Vancouver is to put downward pressure on the value of land for redevelopment[6]. Affordability should not be negatively affected as long as rates are set so they do not impede the steady supply of development sites. Given current and recent development activity there is little evidence that this supply has been or will be affected by the proposed rates.

The proposed rate adjustments represent an 11.9% increase, which is in line with current and forecast economic conditions and accounts for a relatively small percentage of overall development costs today.

[6] CAC Policy and Housing Affordability: Review for the City of Vancouver, Coriolis Consulting, 2014

Communications Plan

Every year the following steps are taken to ensure broad notification of proposed inflationary rate adjustment:

- Web site posting of proposed rates on the City's Financing Growth web page;
- Notice of proposed changes in the City's CAC and Density Bonusing Information Bulletins (available online and at information kiosks in City Hall);
- Advertisements describing the proposed rate adjustments, together with details on how to provide feedback, were placed in the Vancouver Courier and Business in Vancouver newspapers;
- Staff notification to local industry groups (Urban Development Institute, National Association of Industrial and Office Properties, Greater Vancouver Homebuilders Association); and,
- City Clerks notification to a list of stakeholders who have expressed interest in Financing Growth matters informing them of this report and where they can review it online prior to the Council meeting.

At the time of finalizing this report, a written response from stakeholders had not been received.

CONCLUSION

This report seeks Council approval for an annual inflationary adjustment to CAC Targets with new rates to be effective September 30, 2017. This process, which has been ongoing since 2009, now synchronizes the inflationary rate adjustment of all development contributions and continues to align development contribution rates with local construction and property inflation. Annual rate adjustment maintains the purchasing power of growth-related development revenues so that needed civic facilities and infrastructure to serve new residents and workers can be provided.

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2017 Proposed New Inflation Adjusted CAC Targets

Effective September 30, 2017

CAC Target Area	Current CAC Target ($/sq.ft., applied on net additional density)	Proposed New CAC Target (effective September 30, 2017) ($/sq.ft., applied on net additional density)
Grandview-Woodland: Nanaimo St/East 12th Ave shopping nodes	**$60.00**	**$67.13**
Grandview-Woodland: Mid-rise Multi-family sub-areas	**$20.00**	**$22.38**
Grandview-Woodland: Lower Density Townhouse/ Multi-family sub-areas	**$3.00**	**$3.36**
Marpole	**$59.48**	**$66.55**
Cambie Corridor	**$60.94**	**$68.18**
Norquay (Kingsway C-2)	**$11.08**	**$12.40**
Little Mountain Adjacent	**$25.48**	**$28.51**
Southeast False Creek	**$14.32**	**$16.02**

Community Amenity Contributions (CACs)

CACs are voluntary in-kind or cash contributions provided by development when City Council grants additional development rights through rezonings. CACs can help address the increased demands that may be placed on City facilities as a result of a rezoning (from new residents and/or employees), as well as mitigate the impacts of a rezoning on the surrounding community.

In a rezoning, CACs can be part of a public benefits package offered by the developer. In-kind (or on-site) amenity contributions can include affordable and non-market housing, childcare facilities or park space. CAC payments in-lieu may be put toward these benefits as well, but also include libraries, community centres, cultural facilities and neighbourhood houses. CAC payments in-lieu are generally applied to off-site benefits in the surrounding community. CACs are in addition to DCLs.

As new area-specific plans are approved these areas are excluded from the City-wide CAC policy. Many of these areas have a blend of negotiated CAC and CAC target contributions from rezonings, and they are based on local public benefit needs and development economics.

There are two types of CAC policy areas in Vancouver:

1. The citywide CAC area applies to most of the city. For all rezonings in the Citywide CAC area, the CAC is determined through a negotiated approach.
2. Specific CAC policy areas apply to locations with their own CAC and/or public benefit policies. For all rezonings in the area-specific CAC policies, the CAC is determined through a CAC target and/or negotiated approach.

The City has established CAC Targets in a number of areas across the city (see Map 1). For more information on CAC Targets, refer to City's webpage: http://vancouver.ca/home-property-development/community-amenity-contributions.aspx

Map 1: CAC Target Areas in Vancouver