



**CITY OF VANCOUVER**

**POLICY REPORT**  
**DEVELOPMENT AND BUILDING**

Report Date: April 12, 2006  
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Meeting Date: April 20, 2006

TO: Standing Committee on Planning and Environment

FROM: Director of City Plans

SUBJECT: Development Cost Levies (DCLs) For Residential Developments With Fewer Than Four Units And For Low To Medium Density Housing Forms

**RECOMMENDATION**

- A. THAT Council receive this report on the following proposed amendments to Development Cost Levies (DCL):
- apply DCLs to previously-exempted residential projects containing fewer than four units (including area-specific DCL areas);
  - reduce the DCL rate for low to medium density residential development (i.e., up to 1.2 FSR); and
  - exempt any residential renovations, which may include additions less than 500 square feet, in structures containing fewer than 4 dwelling units
- as described in this report;
- B. FURTHER THAT Council direct staff to undertake a community consultation process with key stakeholders as described in this report;
- C. AND FURTHER THAT Council direct staff to report back by July with final recommendations and a by-law to implement the proposed DCL amendments.

**GENERAL MANAGER'S COMMENTS**

The General Manager of Community Services RECOMMENDS approval of the foregoing.

## **COUNCIL POLICY**

In June 2003, Council directed that the City request a Charter amendment from the Provincial government to enable the City to collect DCLs from residential projects containing fewer than four dwelling units.

In July 2004, Council adopted the Kingsway and Knight Housing Area Plan and asked staff to report back with two new zones for low to medium density ground-oriented housing forms. Council also requested a report back on an appropriate Development Cost Levy (DCL) rate for the new housing forms.

On November 23, 2005 Council approved a by-law amendment to create the two new zones in the Kingsway and Knight Housing Plan area.

## **PURPOSE AND SUMMARY**

This report presents amendments to DCLs for collecting growth costs from residential development containing fewer than four units, as well as new low to medium density housing forms recently allowed in the Kingsway and Knight Neighbourhood Centre.

When the present DCL system was implemented (10 DCL by-laws, with two layered areas), developments with less than four dwelling units were exempted from DCLs by statute. Further, low to medium density residential growth, as envisioned in many Community Visions and in the Kingsway and Knight Neighbourhood Centre strategy, was not taken into account. The DCL system was initially targeted to collect growth costs from higher density housing.

The City has recently gained the Charter authority to collect growth costs from one, two and three unit residential projects. As well, Council has approved new zoning schedules for low to medium density housing forms in the Kingsway and Knight area. In future, these new forms may be allowed in other parts of the city. Recognizing that the new housing forms would face economic difficulties under the present DCL rate, Council asked staff to review and report back on a DCL rate that specifically acknowledges the growth costs of these low and medium density housing forms.

In undertaking this review, staff found that although single-family, low and medium density residential projects have growth costs, the current DCL rate of \$6.00 per square foot would be unfairly high because this housing generally has lower growth impacts than higher density housing (e.g., apartments). This is because lower density housing typically contains less new floor space - and more replacement floor space - than higher density housing. Another key finding is that as density increases, so do a project's growth costs, meaning that density can be used to determine an appropriate DCL rate.

As a result of this review, the following changes to DCLs are proposed:

- Apply DCLs to previously-exempted residential projects containing fewer than four units (including area-specific DCL areas);
- Reduce the DCL rate for low to medium density residential development (i.e., up to 1.2 FSR); and
- Exempt renovations, which may include additions aggregating less than 500 square feet, in structures containing fewer than 4 dwelling units.

The DCL amendments would generate about \$77 million in additional net revenues for the City over the next 20 to 25 years. Implementation would be preceded by a six month grace period. One new staff position would be required to help with additional administrative work.

Before implementing the proposed amendments, staff recommend that consultation be undertaken with key stakeholders. Council review of the final staff recommendations would be scheduled in two months, with phased implementation of the new DCLs in July 2006 and February 2007.

## BACKGROUND

### *The Present DCL System*

Currently, applicants pay DCLs prior to Building Permit issuance. The rate is based on the project's land use (e.g., industrial and residential/commercial uses pay different rates) and the payment is determined by the total floor space in the development<sup>1</sup>. Residential and commercial uses pay the same DCL rate (e.g., \$6.00 per square foot in the City-wide DCL area). Residential projects containing fewer than four units are currently exempted from DCLs.

Floor space is equated with growth costs because it is a constant and measurable part of all development, and floor space accommodates people (residents, employees), the key determinant of growth costs.

DCLs collect a proportion of growth costs for parks, affordable housing, engineering infrastructure (e.g., transportation, servicing) and child care. In the City-wide DCL Area, the rate reflects 80 percent of the anticipated costs of growth over 25 years.

The City's DCLs apply to the gross floor space of a new structure. In other words, DCLs are paid on all floor space being constructed, even if it is replacing demolished space. To ensure fairness, the DCL rate has been set to take this into account thereby building a credit for replacement floor space into the rate. The gross charge system makes the administration of DCLs far easier.

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<sup>1</sup> Except for child care facilities and temporary buildings, where a flat rate (\$10.00 per building permit) is levied.

### *Fewer Than Four Unit Residential Projects*

In June 2003, Council supported pursuing a DCL on projects containing fewer than four dwelling units, subject to obtaining Charter authority. Council did so having considered that:

- 30 percent of population growth in the City-wide DCL area will occur in new single-family houses with suites;
- New single-family houses are on average one-third larger; and
- Using their authority to collect development cost charges at point of subdivision, other municipalities already collect growth costs from new single-family, duplex and three-unit development.

The Province subsequently amended the *Vancouver Charter* to enable the City to charge DCLs on residential projects with fewer than four units.

## DISCUSSION

### *Guiding Principles*

The principles that have guided this evaluation of DCL rates and the original Financing Growth policy are:

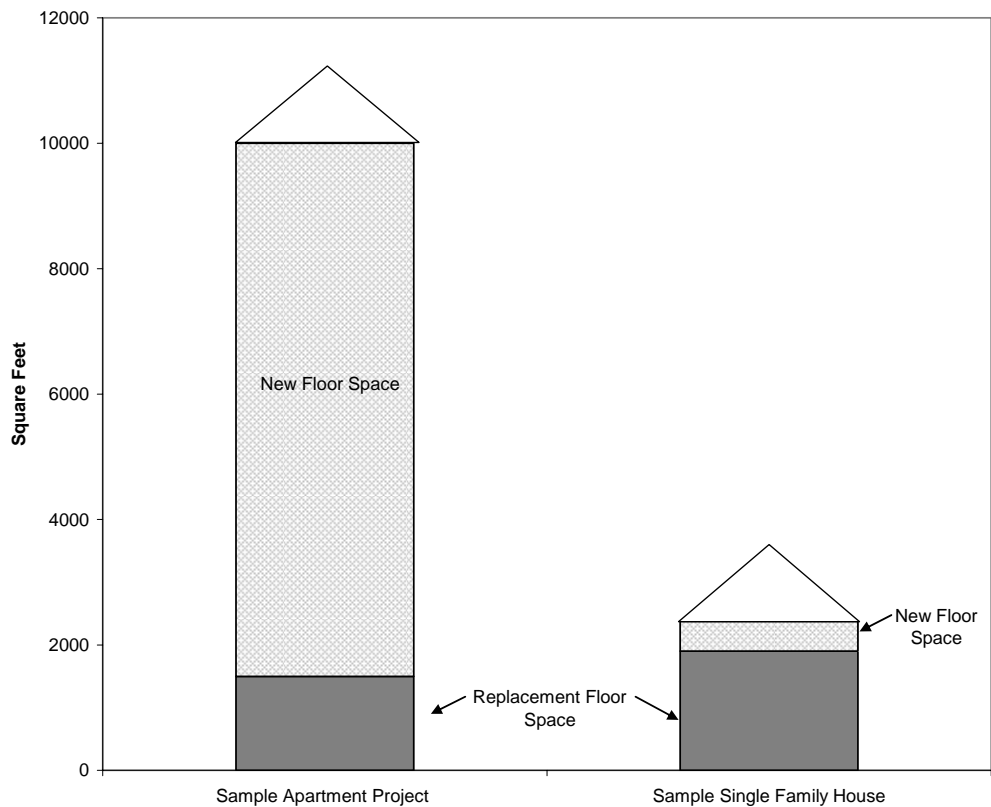
- growth must pay its fair share of growth costs;
- the DCL should not discourage, delay or displace development, or compromise affordability; and
- the DCL system should be as streamlined, straightforward and as easy to understand as possible.

### *Determining Growth Costs*

Preparing the draft DCL rate required staff to determine the growth costs for the fewer than four unit residential projects and the new housing forms now allowed in the Kingsway and Knight Neighbourhood Centre (and proposed for other areas of the city in the future).

Staff first considered whether the current residential DCL rate would be appropriate. The rate is based on higher density apartment growth, which generates significantly more new floor space than lower or medium density development. New floor space is used to determine growth costs because it increases a structure's ability to accommodate additional population, while replacement space does not. Since the DCL is paid based on the floor space of the *entire* building, the amount of new versus replacement space is key in DCL rate setting. Figure 1 illustrates the difference between low and high density development:

Figure 1: Examples of New Development



Note: samples in chart are derived from actual development patterns.

In the above chart, the dark grey shading shows space that was replaced (a structure that was demolished to make way for the new building). The light grey shading shows the new floor space. In the sample apartment project on the left side of the chart, a relatively small structure was demolished and replaced by a much larger apartment building. As a result, most of the apartment building is *new* floor space. The ratio shown in the above chart is the average ratio of new-to-replacement floor space for apartments in Vancouver. When the City-wide DCL was created, this ratio was used to determine the residential rate.

However, as shown in the sample on the right side of the chart, the amount of new floor space in an average single-family house redevelopment is relatively low. This is because most new single-family development in Vancouver involves the demolition of an only slightly smaller house on the site. Given the much smaller proportion of new space in single-family houses, the present DCL rate would collect more than the growth costs. An evaluation of duplex, triplex and the new housing forms had a similar finding. Accordingly, staff determined the growth costs of these housing forms based on the amount of new and replacement space. This yielded the proposed DCL rate which is specific to this type of growth (detailed later in this report). By calculating the rates based on the amount of new and replacement space, staff help ensure that these development types do not pay more than their growth costs.

While evaluating growth costs, staff found that on average, as density increases, so do a project’s growth costs. This means that density can be used as a determinant for DCL rate setting. This method has several key advantages:

- there is a straightforward relationship between density and growth costs;
- City staff already determine the density of new projects as a step in development application review; and
- density is a clearly defined and measurable concept in the *Zoning and Development By-law*.

**Proposed Amendments**

The proposed amendments would adjust the existing DCLs in a number of ways, as discussed below.

**DCL Rates:** as noted, there is a direct relationship between density and growth costs. To ensure DCLs collect a fair share of growth costs, rates would vary by the density of residential development as follows:

<b>Development</b>	<b>DCL Rate</b>
Residential uses in structures at less than or equal to 1.2 floor space ratio (FSR)	\$1.75 per square foot (proposed rate)
Residential uses in structures at greater than 1.2 FSR	\$6.00 per square foot (existing rate)

Note: affordable housing and certain additions to residential would be exempt (see discussion later in this report)

In mixed-use residential buildings built at or below 1.2 FSR, the residential floor space would pay the \$1.75 per square foot, while non-residential floor space (e.g., commercial) would continue to pay the non-residential DCL rate (i.e., \$6.00 per square foot).

The density-based rates acknowledge the generally lower growth costs of lower density development. However, a concern is that some projects may reduce their density to reduce their DCL charges. For example, a proposed project at slightly above 1.2 FSR would only need a minor density decrease to achieve a DCL reduction of \$4.25 per square foot (the difference between \$1.75 and \$6.00). The proposed amendments address this by setting the density threshold well below the common density for most developments built in this density range. An evaluation of past development practice confirms that the 1.2 FSR threshold is unlikely to affect the density of many projects.

**Renovations:** as under the present DCL regulations, additions to existing structures would be subject to DCLs. Under the proposed amendments the applicable DCL rate for renovations of residential space would be as follows:

<b>Residential Renovations</b>	<b>DCL Rate</b>
Where the density of the structure <b>after any additions</b> is less than or equal to 1.2 floor space ratio (FSR)	\$1.75 per square foot (proposed rate)
Where the density of the structure <b>after any additions</b> is greater than 1.2 FSR	\$6.00 per square foot (existing rate)

Note: only the added floor space (not the existing space) would pay the DCL.

Staff recommends that any residential renovations, which may include additions of up to 500 square feet, in structures containing fewer than 4 dwelling units be exempted.

The DCL changes will result in an increase in staff administration, but will provide additional revenues to the City.

The suggested exemption tries to minimize service delivery impacts by providing relief from the DCL fee for small renovations in low density developments.

**Area-specific DCLs:** in addition to the City-wide DCL area, the City has nine area-specific districts. For sake of fairness and consistency, the density-based rates should also apply to the area-specific districts.

*Amended DCLs: Implications*

**Economic Review:** in 2001, Coriolis Consulting Corp evaluated the potential economic impact of a DCL charge on single family dwellings. Coriolis found that the introduction of a \$3.00 per square foot DCL would not materially affect the supply of single family housing, and thus would not result in price increases of the units. However, a \$3.00 DCL for single family housing would exceed growth costs. For this reason, staff are confident that a \$1.75 DCL, which reflects actual growth costs, would have no appreciable effect on the price of single family housing.

Coriolis was retained again to advise on the economic impacts of the proposed DCLs on new low and medium density housing forms recently allowed in the Kingsway and Knight Neighbourhood Centre. A copy of this report is on file in the City Clerk’s Office, and its conclusions are summarised here.

The consultant reviewed the new housing forms and considered their applicability across the city. The consultant found that although single-family development will usually be the most viable development option, the new housing forms will be viable in some locations. Lower cost sites will be economically viable for redevelopment as duplex, infill development, small houses, cottages or row housing (1.0 or 1.2 FSR). Where land costs are higher, viable options will be row houses at 1.2 FSR and infill development.

For the most part, it is single-family housing’s extreme popularity, not DCLs, that affects the viability of the new housing forms. Although DCLs make this situation slightly more difficult,

the consultant found that eliminating or reducing the DCLs for the new housing forms “will not make any material difference in how the market ends up allocating lots to the construction of new single detached homes versus the construction of [the new housing forms]”.

Based on the consultant’s findings staff conclude that:

- DCLs would have only a minor effect on the site economics for the new housing forms; and,
- the proposed rate represents a fair share of DCL-eligible growth costs.

**Land values:** a typical new house in Vancouver of 2,400 square feet would pay \$4,200 in DCLs under the proposed rate. Accordingly, the introduction of DCLs are estimated to have a commensurate, downward effect on the values that a developer will pay for single-family land by 0.7 percent to 1.3 percent of lot value depending on location<sup>2</sup>. This is not considered a significant impact on developable land values.

**Transportation costs:** on average, lower density development has lower growth costs for DCL-eligible projects such as parks, replacement housing and childcare. However, it has somewhat higher costs for road-related transportation infrastructure. When the City-wide DCL Rate Review is undertaken later this year, a detailed evaluation will be done to determine the exact growth cost implications for transportation. Given that significant technical evaluation is necessary to prepare a reliable estimate, and that resulting cost implications are likely to be small (e.g., less than \$0.30/square foot), staff conclude that this issue need not delay implementing the new DCL rate.

**Other servicing costs:** the low and medium density DCL rate does not include any costs for water, sewerage and drainage services because these services are already in place. This is consistent with most other DCL rates in the city.

**Sustainability:** although DCLs rates may only be aimed at recovering growth costs related to parks, replacement housing, childcare and transportation infrastructure, the *structure* of the DCL can be designed to encourage sustainability objectives. The proposed amendments encourage building retention by exempting modest renovations to existing one, two and three family dwellings, while reconstruction of these structures would pay DCLs. As well, the new DCLs would continue to be assessed on gross floor space rather than on net floor space, thereby creating a further incentive to retention.

Removing the DCL exemption for one, two and three unit development, and reducing the DCL rate for medium density housing (e.g., the new housing forms, some townhouses) would improve development economics for medium density developments slightly. This would favour development that has lower impacts on energy and water demand, solid waste, air pollution and land consumption.

**Revenues:** compared to the present DCLs, the new DCLs would include both a new rate (for residential projects containing fewer than four units) and a rate reduction (for residential

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<sup>2</sup> According to Coriolis Consulting in “Review of Proposed New DCL Rates for Some Forms of Low Density Residential Development”, 2005.



projects with four or more units and density at 1.2 FSR or lower). Over the next 20 to 25 years, the new DCLs would generate additional estimated revenue of about \$77 million (net of costs and reduced revenues).

**Consultation:** the proposed amendments would introduce some significant changes to DCLs, including the new application of DCLs to small scale residential, the reduction of DCLs for some low to medium density development, and the creation of two density-based categories for the application of these DCL rates. As a result, staff recommend public consultation prior to a final Council decision.

The consultation process would provide for review and comment from stakeholders including the Greater Vancouver Homebuilders' Association, the Urban Development Institute, Community Vision Implementation Committees, and the Kingsway and Knight Housing Area Working Group. Staff would report on the results of the consultation review when draft by-laws are presented for Council's consideration in July.

**Implementation grace period:** when implementing a new DCL rate, City practice is to establish a suitable grace period to allow applications in the system a reasonable opportunity to clear the application review process and to allow the real estate market to adjust land prices. For the proposed changes to DCLs, staff suggest a two phase grace period as follows:

Phase I: Reduce the DCL rate applicable to residential development up to 1.2 FSR, but continue to exempt residential projects containing fewer than four units	July 2006
Phase II: Introduce the new DCL rate for projects containing fewer than four residential units	February 2007

The two phase grace period would:

- in Phase I, implement the proposed rate reduction quickly (rates on chart on Page 6) to coincide with the new housing forms in Kingsway and Knight. This would ensure that very few of the new housing forms would be charged the \$6.00 rate if they have four or more dwelling units; and
- in Phase II, implement the *new rate* for the fewer than four unit category after a grace period of at least six months. This would give in-stream applications adequate time to clear the review process. As well, the timing coincides with a slower period in the development cycle so that Development Services staff will be well positioned to respond if there is a surge in pre-deadline Building Permit applications.

For simplicity's sake, both the new DCL rate and the rate reduction would ideally come into play at the same time. However, given the different economic impacts of the amendments, a two phase approach is more appropriate.

## FINANCIAL IMPLICATIONS FOR THE CITY

If implemented, the proposed policy would introduce a new rate for some development, and a rate reduction for others, which together net out to a revenue gain of about \$3 million in

DCLs a year, starting in the 2007 fiscal year. This increase is due entirely to the additional DCL payments to be made by residential projects containing fewer than four units. As long as this category of housing is DCL exempt, the City must cover their growth costs from the Capital Plan. The new DCL revenues will reduce the burden on the Capital Plan.

The introduction of a DCL rate for projects containing fewer than four dwelling units would result in another 900 DCL payments to be processed each year (e.g., receive payments, ensure accurate record-keeping, and answer customer inquiries). Although the City presently has a staff position to administer DCL payments, a new permanent Clerk IV position is required to maintain a high level of customer service. This additional staff position would cost \$54,800 per year including fringe benefits and equipment costs (phone, fax, computer), and would commence in January of 2007. Presently, DCL revenues may not be used for staffing costs. However, at Council's direction, staff have initiated a Vancouver Charter amendment request to enable the City to use DCL revenues for administration and implementation costs.

Following consultation on the proposed amendments, staff would report back to Council in July 2006 with a draft by-law and recommendations, and will at that time seek approval for the creation of the extra staff position. In the policy report, staff will recommend funding sources for this position to mitigate any budget implications.

## SOCIAL IMPLICATIONS

The amended DCLs would, for the first time, collect growth costs from low density residential growth (i.e., projects containing fewer than four units). A portion of these new revenues would be allocated to the provision of child care and affordable housing. In the absence of these DCLs revenues, the City must absorb these costs or delay the provision of the facilities.

## CONCLUSION

The Province has amended the *Vancouver Charter* to allow the City to collect growth costs from residential development containing fewer than four units. As well, Council has asked staff to prepare a DCL rate for new low to medium density housing forms. The proposed DCLs would enable the City to recover growth costs resulting from the development of these housing forms.

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