



ADMINISTRATIVE REPORT

Report Date: November 22, 2013
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Meeting Date: December 3, 2013

TO: Vancouver City Council

FROM: Chief Housing Officer in consultation with the Director of Legal Services

SUBJECT: Development Cost Levy By-law Amendments to the Definition of For-Profit Affordable Rental Housing

RECOMMENDATION

THAT Council amend the Vancouver Development Cost Levy By-law and the Area Specific Development Cost Levy By-law to amend the definition of For-Profit Affordable Rental Housing generally in accordance with Appendix A.

FURTHER THAT the Director of Legal Services be instructed to bring forward the amendments to the by-laws forthwith.

REPORT SUMMARY

Vancouver City Council adopted the Short Term Incentives for Rental (STIR) program in June 2009. STIR was a two and a half year pilot program that offered incentives to encourage the development of affordable market rental housing. The program ended on December 15, 2011, having resulted in over 1,300 units of affordable market rental housing, secured as rental for the longer of 60 years or the life of the building. Following a review of the outcomes of the STIR program, Council adopted the Secured Market Rental Housing Policy in 2012 (now referred to as Rental 100), which builds on the successful attributes of the STIR.

The waiver of Development Cost Levies (DCLs) was a key incentive offered through the STIR program, and continues to be offered through Rental 100. The Vancouver Charter authorizes the City to waive DCL for eligible developments that constitute “for-profit affordable rental housing.” This report recommends that Council approve amendments to the definition and administration of the DCL waiver for “for-profit affordable rental housing” in both the Area Specific Development Cost Levy By-law and the Vancouver Development Cost Levy By-law (the “DCL By-laws”) in order to provide greater certainty concerning eligibility for the DCL waiver. These amendments will better codify the evaluation process the City already uses to determine eligibility for these waivers.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

- Short Term Incentives for Rental (STIR) Program (2009)
- Vancouver's Housing and Homelessness Strategy 2012-2021 (2012)
- Final Report from the Mayor's Task Force on Housing Affordability (2012)
- Secured Market Rental Housing Policy - "Rental 100" (2012)

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

A healthy rental housing sector is essential to Vancouver's social, economic and cultural vibrancy. The experience of the STIR program demonstrated that the City can successfully enable market rental supply without senior government assistance - the program stimulated the development of over 1,300 units of affordable market rental housing, which represented nearly a 5-fold increase in annual approved new market rental capacity compared to the preceding 5 years. Rental 100 builds on that success with significant improvements to the program, and is vital to meeting the housing targets identified in Vancouver's Housing and Homelessness Strategy.

The recommendations in this report continue the process of improvement of the City's rental incentive policies, providing greater certainty to the public and the development industry on eligibility for Development Cost Levies waivers for affordable market rental housing.

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

The Importance of Rental Housing

Vancouver is a growing and diverse city with significant housing challenges. Providing more affordable housing choices for all Vancouverites through a range of housing options is critical to the social and economic health of the City. Many new residents, including essential workers, who come to Vancouver to contribute to the economic and social vibrancy of our city are often renters for a period of time. Over 50% of households in Vancouver are renters. Vancouver provides nearly half (46%) of the rental housing in the entire Lower Mainland and more than a quarter (27%) of the rental housing for all of British Columbia.

The high cost of home ownership in Vancouver is well documented. Rental housing provides an affordable alternative to ownership housing because rents for a comparable unit are much lower than a mortgage payment. Most renters cannot afford to buy a home as they generally cannot make the necessary down payment or qualify for a mortgage, and could not pay the mortgage without compromising on other necessities such as food and transportation. The Mayor's Task Force on Housing Affordability identified a target household income range of \$21,500 to \$86,500 for the City's affordable housing initiatives.

The construction of new rental housing has been limited in recent decades. Increasing demand for rental housing and very low vacancy (averaging just 0.9% over the past 30 years), have contributed to steady increases in rents. Between 2002 and 2012, average market rent

for all unit types in the City increased by 36% (CMHC Rental Market Reports). An increased supply of rental housing is needed to meet growing demand, help mitigate rent increases, provide affordable housing for moderate income households and create a sustainable affordable market rental housing stock, recognizing that purpose-built rental housing with security of tenure becomes more affordable over time relative to new construction.

For these reasons, the Mayor's Task Force on Housing Affordability, which reported to Council in October 2012, strongly supported the continuation of the City's rental incentive programs under the Secured Market Rental Policy (see Appendix B).

City of Vancouver Rental Incentive Programs

Vancouver City Council adopted the Short Term Incentives for Rental (STIR) program in June 2009. The intent of the STIR program was outlined in the June 2009 Council report that led to the adoption of the program:

The main focus of the STIR program is to increase the supply of rental housing. This increase will assist with housing affordability, but achieving deeper levels of affordability can only be done in partnership with senior levels of government, given the limited range of incentives available to the City (page 8).

Through STIR, the City offered a range of incentives to enable the private sector to build rental housing projects that are financially viable. Incentives included parking reductions, bonus density through rezoning, Development Cost Levy waivers, and expedited processing.

Following the end of the STIR program in December 2011, City staff conducted a comprehensive review of the program. The result of this review was the recommendation that Council adopt a new Secured Market Rental Housing Policy, now referred to as Rental 100. The key attributes of this program are similar to STIR, except that only projects in which 100 per cent of residential units in the project are secured as rental tenure will be considered.

These rental incentive programs have been extremely successful at increasing the supply of rental housing. The STIR program resulted in 19 projects with 1,330 market rental units. From 2006 to 2010 inclusive, prior to the STIR program, the number of privately initiated market rental units approved in the City was about 80 units per year. The units approved to date under the STIR program equate to an average of over 400 units per year. Early implementation of Rental 100 indicates that this trend will continue, at least while current market conditions remain. There are currently 200 units approved and 460 units in the application process, and staff have had additional inquiries for about 15 projects with approximately 1,000 rental units.

Development Cost Levy Waivers

The waiver of Development Cost Levies was a key incentive offered through the STIR program, and continues to be a key incentive available through Rental 100. The Vancouver Charter authorizes DCL waivers for eligible developments that constitute "for-profit affordable rental housing." Council determines what constitutes an eligible development by bylaw, in this case the DCL By-laws. The DCL By-laws allow for the waiver of DCLs for projects that are determined by the City Manager to be "for-profit affordable rental housing" after

consideration of finishing, size, location and other design considerations, and the proposed rents for the project.

The process put in place in the City with the establishment of the STIR Program (and carried on through the Rental 100 Program) to determine eligibility for DCL waivers is the following: Planning and Development Services, Housing and Real Estate Services staff assess the affordability of proposed projects against the requirements of the DCL Bylaw. The project financial pro forma and proposed market rents for each project are reviewed and signed off by, in order: the Assistant Director of Development Services, the Associate Director of Real Estate Services, the GMs of Planning and Development and Community Services, and the City Manager. Over the course of the two and a half year STIR pilot program, the process of assessment became increasingly robust as the City refined its understanding of the delivery of rental housing. The assessment process for the Rental 100 program now focuses on the following factors:

- **Construction costs** - The formal enquiry by the developer includes a written fact sheet outlining basic information regarding the proposal, and a pro forma financial statement that includes anticipated construction costs. Third party evidence of current construction costs is compared with the proposed costs submitted by the Applicant under the proposal. Evidence of current construction costs is determined using locally based Vancouver construction quantity survey information for Basic and Medium Quality construction (e.g. Altus Group Annual Construction Cost Guide).
- **Design considerations** - Design considerations, such as unit size and the level of amenity in the building, are reviewed at the rezoning and development permit stages to ensure projects are relatively modest, typical rental projects. The Rental 100 policy formalizes this approach with maximum unit size guidelines, recognizing the significant impact unit size has on rents.
- **Proposed Rents** - Proposed rents are assessed on three key factors. First, staff compare proposed rents to average market rents from CMHC Rental Market Reports for comparable rental housing in the market, usually newer rental buildings in the local area (see page 5/6). The purpose of this comparison is to ensure that Rental 100 units are intended to be typical rental housing. Second, staff compare the proposed rents to the average monthly costs of ownership in the local area, derived from Multiple Listing Service data, to ensure that Rental 100 units are providing an affordable alternative to home ownership in the City. Third, staff calculate the annual income required to afford the proposed rents, and consider 30% of income dedicated to rent to be an acceptable benchmark.

Strategic Analysis

At the initiation of the STIR program, a staff and senior management group was established to oversee and assess all applications prior to final review and approval by the City Manager. The assessment is a robust standardized process which benchmarks the applications to STIR and now Rental 100 against third party external data wherever possible in order to assess the status of the application as affordable for profit rental housing. The criteria used to determine eligibility are sufficiently clear and consistent that staff recommend they be specifically included in an amended definition of “for-profit affordable rental housing” in the DCL By-laws. Clarifying the bylaw definition would provide greater certainty for applicants,

staff and the public on what qualifies as an eligible development of for profit affordable market rental for DCL waivers.

These amendments to the DCL By-laws would also address a legal Petition filed in the B.C. Supreme Court by the West End Neighbours, which challenges the City's current process for determining eligibility for DCL waiver for affordable rental housing. The Petition challenges the delegation of authority to the City Manager to determine eligibility for the waivers and argues that the DCL By-laws do not adequately define the meaning of "affordable." The recommended changes to the DCL By-laws will address both of these issues.

The following criteria are proposed to be added to the DCL By-laws definition of "for-profit affordable rental housing" to provide certainty around eligibility for DCL waivers. The DCL waivers would no longer be at the discretion of the City Manager, because the criteria in the DCL By-laws will be specific. The assessment for determining eligibility for DCL waivers will be conducted by staff as part of the rezoning and/or Development Permit process, using the clear criteria that will be included in the DCL By-laws. All of the following criteria must be met in order for a project to receive the waiver.

- 1. Projects are 100% secured market rental housing**

The City will waive DCLs for projects in which 100% of the residential floor space is non-stratified secured rental housing. This criteria aligns the DCL By-laws with the intent of the Secured Market Rental Policy (Rental 100). It is supported by the key learning from the review of the STIR program, that City incentives are more effective and provide better value when applied to 100% rental projects versus mixed residential projects.

- 2. Unit sizes are modest and in line with typical purpose built rental developments**

The City will waive DCLs for projects with average unit sizes that fall at or below the maximum unit sizes currently included in the City's Rental Incentive Guidelines, which are based on BC Housing guidelines. These unit size maximums will be included in the DCL By-laws. Unit size is an effective test for affordability because unit size has a direct impact on cost to construct rental housing and the rents that can be achieved. Limiting DCL waivers to standard sized units helps to ensure that the City is not incentivizing high-end or luxury rental units. Unit sizes are also relatively simple to regulate at both the rezoning and development permit stages.

- 3. Initial rents do not exceed the average rent for newer rental units in the City**

Through these amendments, the DCL By-laws will include maximum rent levels that can be charged to the initial tenants in the first year of occupancy in units that receive DCL waivers. Future rents will be regulated by the Province of B.C. through the Residential Tenancy Act. The rents for individual projects will be agreed between the applicant and staff at the time of rezoning or Development Permit, and can be inflated during the period of construction by the Allowable Rent Increases set out annually by the provincial Residential Tenancy Office.

The initial rents for eligibility for DCL waivers will be set as the average rent for rental units built since 2000 in the City of Vancouver as set out in CMHC's annual Rental

Market Report. These rents are the averages for relatively new rental units from across the city in different local markets, and an average of rents in units built over the past 13 years. For this reason, the City will consider new projects with average rents to a maximum of 10% above the CMHC rent figures and consider a 10 year average from available rental data.

Table 1 indicates these rent levels by unit type from CMHC’s 2012 Rental Market Report, and compares them to examples from previously approved STIR and Rental 100 projects. These rents will be included in the DCL Bylaws and will be reviewed annually when CMHC publishes its report, usually in early December. The table below also shows the income required to afford these rents without spending more than 30% of household income.

The Mayor’s Task Force on Housing Affordability identified a target household income range of \$21,500 to \$86,500 for the City’s affordable housing initiatives. All of the rents below would be affordable to households with incomes in that range, with the exception of 3 bedroom units. Despite this, staff recommend that 3-bedroom units be eligible for DCL waivers. Three bedroom units make up a very small number and share of rental units in the City. Of the 55,000 units in CMHC’s report, only 523 have 3 or more bedrooms (1% of the total rental stock). The vacancy rate for 3-bedroom units was 0.6%, meaning that a total of three 3-bedroom units are available for rent in the purpose-built rental stock at any given time. Increasing the supply of 3-bedroom rental units is a priority for the City in order to address this issue which is a critical issue in supporting affordable housing for families with children across the city.

Staff have reviewed the anticipated rents for all projects approved under the STIR and Rental 100 programs, and confirm that all of these projects are expected to meet the rent thresholds proposed in this report.

Table 1: Proposed maximum initial rents for rental projects receiving DCL waivers

Address	Area	Proposed Rents by Unit Type			
		Studio	1 Bedroom	2 Bedroom	3 Bedroom
CMHC 2000+ Rent		\$1,443	\$1,517	\$2,061	\$2,743
Income to Afford Rent		\$58,000	\$61,000	\$82,000	\$110,000
STIR/RENTAL 100 EXAMPLES					
8150 Cambie	South	\$900	\$1,010	\$1,800	-
1401 Comox	West End	\$1,040	\$1,340	\$1,890	\$2,520
4320 Slocan	East Side	\$770	\$1,020	\$1,455	-
3036 W Broadway	West Side	\$1,100	\$1,325	\$1,900	\$2,000
1142 Granville	Downtown	\$1,250	-	-	-

4. Construction costs are in line with basic to medium quality construction

The STIR and Rental 100 programs, and the current DCL Bylaws, speak to achieving affordability in part through modest design and finishing in projects receiving incentives. It would be very challenging to describe all of the design elements that

differentiate a modest project from a higher-end project. However, construction costs provide a good indicator of the level of finishing expected in a project. Staff are proposing to codify our existing review practice by specifically requiring an evaluation or comparison of construction costs for projects applying for DCL waivers against standard third party construction cost estimates. Staff recommend that the DCL By-laws refer to the annual Construction Cost Guide produced by the Altus Group. The criterion in the DCL By-laws would require that construction costs fall at or below the medium level of construction costs relative to industry standards.

5. Secured for the longer of 60 years or the life of the building.

Projects seeking DCL waivers will be secured for 60 years or the life of the building, whichever is longer, in accordance with standard practice through a Housing Agreement and Non-stratification covenant registered at the Land Titles Office.

Monitoring Affordability

Providing rental housing that is affordable to households that cannot afford home ownership is a key objective of the City's rental incentive policies. Staff will continue to analyse Rental 100 projects against the cost of home ownership and report this analysis in Council reports for Rental 100 rezonings. In all cases included in Table 1, the income required to afford the maximum rent is significantly lower than the income required to afford a comparable strata-titled ownership unit. For example, the income required to afford a 2-bedroom unit in the project at 4320 Slocan Street at a rent of \$1,455 per month would be approximately \$58,000 per year ($\$1,455 \times 12$ months at 30% of income = \$58,200 annual income). The income required to buy the average 2-bedroom condominium unit on the East Side with total monthly costs of \$2,552 is approximately \$102,000¹.

In addition, the up front cost to access homeownership is significantly higher than the cost to access a rental unit. To purchase a 2-bedroom unit on the East Side, a household must pay a down payment plus legal fees that will total over \$40,000 (assuming a 10% down payment). The comparable cost to access a 2-bedroom rental unit is 1.5 months' rent (first month rent plus deposit), or approximately \$2,200.

In order to address the West End Neighbours' legal Petition, the amendments are being brought forward expeditiously.

Implications/Related Issues/Risk (if applicable)

Financial

The proposed amendments to the DCL Bylaw clarify and standardize the assessment process that has been developed and used by staff previously. As such there is no change to the anticipated amount of DCLs to be waived for "for-profit affordable rental housing" projects.

¹ The median MLS sale price for 2-bedroom East Side condominium in 2012 was \$389,610. The total monthly cost of \$2,552 assumes a 10% down payment, 5% mortgage rate amortized over 25 years, \$150 monthly strata fee, and \$135 per month in property taxes.

CONCLUSION

Rental housing is critical to Vancouver’s social diversity and economic health. Through the STIR and Rental 100 initiatives, the City has demonstrated significant recent success in stimulating the supply of new rental housing. The City has gained experience over the course of implementing these initiatives, particularly in the area of assessing projects for determining eligibility for DCL waivers that the City is authorized to provide under the Vancouver Charter to “for-profit affordable rental housing.” The Chief Housing Officer recommends that Council amend the DCL By-laws to clarify the definition of “for-profit affordable rental housing” by codifying the evaluation process for determining eligibility for a DCL waiver.

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BY-LAW DEFINING FOR-PROFIT AFFORDABLE RENTAL HOUSING

A By-law to amend Vancouver Development Cost Levy By-law No. 9755, regarding eligible developments

THE COUNCIL OF THE CITY OF VANCOUVER, in public meeting, enacts as follows:

1. This By-law amends the indicated provisions of By-law 9755.
2. In section 1.2:
 - (a) Council strikes out the words:

“ “for-profit affordable rental housing” means three or more new dwelling units in the same building or project, determined by the City Manager under section 3.1 to be affordable, but does not include alterations or additions to such units;” ; and
 - (b) Council substitutes:

“ “for-profit affordable rental housing” means a new multiple dwelling which meets the requirements of section 3.1A to be for-profit affordable rental housing, but does not include alterations of or extensions to those dwelling units;”
3. In section 3.1:
 - (a) Council strikes out the words:

“3.1 Subject to this By-law, Council imposes, on every person entitled to delivery of a building permit authorizing development in the general area, the levies set out in section 3.2, except that Council waives the levy otherwise required under section 3.2 for construction of for-profit affordable rental housing:
 - (a) which the City Manager after considering the finishing, size, location and other design considerations, and proposed rents, determines to be affordable; and
 - (b) against title to which the owner of the property on which such housing is situate has registered an instrument, in form and substance, and with priority of registration, satisfactory to the Director of Legal Services, restricting the tenure of such housing to rental only for:
 - (i) the longer of the life of the building in which they are situate and 60 years, or

- (ii) such other term to which the city and owner may agree.”; and
 - (b) Council replaces section 3.1 with the following:

“3.1 Subject to this By-law, Council imposes, on every person entitled to delivery of a building permit authorizing development in the general area, the levies set out in section 3.2.”
4. After section 3.1, Council adds:
- “3.1A Notwithstanding section 3.1, Council waives the levy otherwise required under section 3.2 for construction of for-profit affordable rental housing, which shall mean housing where:
- (a) all dwelling units in the multiple dwelling are rental units;
 - (b) no dwelling units are strata units;
 - (c) the average size of the dwelling units is not greater than:
 - (i) 42 square meters for studio units,
 - (ii) 56 square meters for one bedroom units,
 - (iii) 77 square meters for two bedroom units, or
 - (iv) 97 square meters for three bedroom units,except that the floor area used for stairways within a two or three bedroom townhouse unit of two or more storeys is excluded from the calculation of maximum unit size;
 - (d) agreed upon average rents for initial occupancy do not exceed the following specified rents by more than 10 per cent:
 - (i) \$1,443 per month for a studio unit,
 - (ii) \$1,517 per month for a one bedroom unit,
 - (iii) \$2,061 per month for a two bedroom unit, or
 - (iv) \$2,743 per month for a three bedroom unit,except that such rents shall be adjusted annually on January 1 to reflect the change in average rent for all residential units built since the year 2000 in the City as set out by the Canada Mortgage and Housing Corporation in the Rental Market Report published in the previous calendar year;

A By-law to amend
Area Specific Development Cost Levy By-law No. 9418,
regarding eligible developments

THE COUNCIL OF THE CITY OF VANCOUVER, in public meeting, enacts as follows:

1. This By-law amends the indicated provisions of By-law 9418.
2. In section 1.2:
 - (a) Council strikes out the words:

“ “for-profit affordable rental housing” means three or more new dwelling units in the same building or project, determined by the City Manager under section 3.1 to be affordable, but does not include alterations of or extensions to such units;” and
 - (b) Council substitutes:

“for-profit affordable rental housing” means a new multiple dwelling which meets the requirements of section 3.1A to be for-profit affordable rental housing, but does not include alterations of or extensions to those dwelling units;”
3. In section 3.1:
 - (a) Council strikes out the words:

“ “3.1 Subject to this By-law, Council imposes, on every person entitled to delivery of a building permit authorizing development in the general area, the levies set out in this Section 3, except that Council waives the levy otherwise required under this Section 3 for construction of for-profit affordable rental housing:

 - (a) which the City Manager after considering the finishing, size, location and other design considerations, and proposed rents determines to be affordable; and
 - (b) against title to which the owner of the property on which such housing is situate has registered an instrument, in form and substance, and with priority of registration, satisfactory to the Director of Legal Services, restricting the tenure of such housing to rental only for:
 - (i) the longer of the life of the building in which they are situate and 60 years, or

(ii) such other term to which the city and owner may agree.”; and

(b) Council replaces section 3.1 with the following:

“3.1 Subject to this By-law, Council imposes, on every person entitled to delivery of a building permit authorizing development in the general area, the levies set out in section 3.”

4. After section 3.1, Council inserts as a new section 3.1A, the following:

“3.1A Notwithstanding section 3.1, Council waives the levy otherwise required under section 3 for construction of for-profit affordable rental housing, which shall mean housing where:

- (a) all dwelling units in the multiple dwelling are rental units;
- (b) no dwelling units are strata units;
- (c) the average size of the dwelling units is not greater than:

- (i) 42 square meters for studio units’
- (ii) 56 square meters for one bedroom units,
- (iii) 77 square meters for two bedroom units, or
- (iv) 97 square meters for three bedroom units,

except that the floor area used for stairways within a two or three bedroom townhouse unit of two or more storeys is excluded from the calculation of maximum unit size;

(d) agreed upon average rents for initial occupancy do not exceed the following specified rents by more than 10 per cent:

- (i) \$1,443 per month for a studio unit,
- (ii) \$1,517 per month for a one bedroom unit,
- (iii) \$2,061 per month for a two bedroom unit, or
- (iv) \$2,743 per month for a three bedroom unit,

except that such rents shall be adjusted annually on January 1 to reflect the change in average rent for all residential units built since the year 2000 in the City as set out by the Canada Mortgage and Housing Corporation in the Rental Market Report published in the previous calendar year;

Mayor's Task Force on Housing Affordability (2012)

Co-chaired by Vancouver Mayor Gregor Robertson and former provincial cabinet minister Olga Ilich, who served as Minister of Tourism and then Minister of Labour from June 2005 until June 2008 and who has been involved in the housing field for most of her career, with a strong focus on the development of social and family housing. The Task Force membership is drawn from a number of organizations relevant to the housing sector and includes: architects, designers, builders, non-profit associations, apartment owners, academics, and private, non-profit and public sector property developers.

Membership

Alan Boniface: Dialog Consulting Architects
John D'Eathe: Real Estate Counsellor
Nathan Edelson: 42nd Street Consulting
Leonard George: Tsleil-Waututh Nation
Marg Gordon: British Columbia Apartment Owners & Managers Association
Mark Guslits: Mark Guslits & Associates Inc.
Colleen Hardwick (Nystedt): New City Ventures
Howard Johnson: Baptist Housing
Ken Kwan: SUCCESS
Michael Lewis: Canadian Centre for Community Renewal
Raymond Louie: City Council
Eric Martin: Bosa Development Corporation
Geoff Meggs: City Council
Karen O'Shannacery: Lookout Society
Al Poettcker: UBC Properties Trust
Peter Simpson: Greater Vancouver Home Builders' Association
Bradford Tone: Tone Management

Recommendation regarding the City's Rental Incentive Programs

*Continue to build on the work of the City's Secure Market Rental Housing Policy that incentivizes construction of purpose built rental units through a density bonus, DCL waiver, parking relaxations and other regulatory tools (under **Recommendation 1: Increase supply and diversity of affordable housing**).*