CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	June 2, 2015
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Meeting Date:	June 10, 2015

TO: Standing Committee on Planning, Transportation and Environment

FROM: General Manager, Planning and Development Services

SUBJECT: 2014 Annual Report on Community Amenity Contributions & Density Bonusing

RECOMMENDATION

THAT Council receive the "2014 Annual Report on Community Amenity Contributions & Density Bonusing" for information.

REPORT SUMMARY

This report provides information on approved Community Amenity Contributions (CACs) and Density Bonusing for 2014 in the City of Vancouver.

Every year, the City approves development projects which contribute to growth in the city, placing pressure on the broad array of public amenities which impact the liveability of our city, the health of our residents, and the needs of individuals and families who come to our city to live, work and contribute to our economy. The main mechanism for approving additional density beyond what is currently permitted under zoning bylaws is site specific rezoning, initiated by the property owner. In 2014, there were 50 approvals of additional density resulting in a net increase in floor area of 6.5 million square feet.

The 2014 approvals of additional density will secure public benefits valued at approximately $234 million. Approximately two-thirds of these public benefits ($157 million) and about 60% of the added floor area were attributed to the approval of one major project rezoning at Oakridge Centre (650 West 41st Avenue).

Allocation of public benefits addresses the anticipated city facility and infrastructure needs for delivering services and programs to support added density and associated population growth and economic activity. These allocations reflect Council priorities and Council approved guidelines for determining public benefits.

Table 1: 2014 Public Benefit Contributions by Category

Public Benefit Category	Contribution Value ($Millions)
Affordable Housing (city-owned)	$111M (290 social housing units)
Community Facilities (e.g., libraries, community/ seniors centres, family places, cultural facilities, etc.)	$52M
Parks and Open Spaces (incl. Public Art)	$40M
Child Care Facilities	$17M
Heritage (i.e., on-site preservation & purchase of density)	$12M
Transportation	$1M
Not yet allocated	$1M
Total:	**$234M**

Source: City of Vancouver

Affordable Housing was the largest recipient of public benefit contributions accounting for $111M in public benefit value. This includes 290 social housing units, all of which will be owned by the City, plus the provision of land for future affordable housing and pay-in-lieu to the City's affordable housing fund. In addition to these contributions, a further 1,073 units of secured market rental housing (secured for the life of the building as rental but owned by private owners), and 289 units of social housing owned by the non-profit sector were also included in 2014 development approvals. These non-city-owned, affordable housing projects are not included in the 'contribution value' calculation, but are important public amenities which align with the City's Housing and Homelessness Strategy.

Approximately 80% of public benefit value was offered as in-kind contributions, meaning that they will be provided on-site when the new developments are constructed. The remainder of the allocated funds (20%) were offered as cash-in-lieu contributions, meaning that these funds when received at enactment are then assigned to the specific public benefits by Council though multi-year capital planning and budgeting processes.

Approvals of additional density occur infrequently, representing only 3.5% of overall building permits issued in 2014. The vast majority of new development is approved within existing zoning. See Appendix A for a complete list of all applications in which additional density was approved in 2014.

As noted above, CACs are designed to address the demands for various public amenities associated with growth of our city. Over the past 5 years (2010-2014), Council has allocated approximately $571 million in CACs and Density Bonusing commitments towards public benefits. The majority of these commitments have been towards Affordable Housing (41%), followed by Community Facilities (18%) and Heritage (16%).

COUNCIL AUTHORITY/PREVIOUS DECISIONS

- A Healthy City for All: Healthy City Strategy 2014-2025 – Phase I (2014)
- Culture Plan: Strategic Directions for the Next Five Years (2013)
- Housing and Homelessness Strategy 2012-2021 (2012)
- Transportation 2040 (2012)
- Secured Market Rental Housing Policy (2012) (which replaces Short Term Incentives for Rental (STIR) program (2009)
- Community Amenity Contributions through Rezonings (2006)
- City-wide Financing Growth Policy (2003)
- Heritage Building Rehabilitation Program Policies and Procedures (2003, amended 2005)
- General Policy for Higher Buildings (1997, amended 2011)
- Public Art Policies and Guidelines (1994, updated 2008)
- Transfer of Density Policy and Procedure (1993, last amended 2010)
- Heritage Policies and Guidelines (1989, last amended 2002)
- Economic Action Strategy (2011)

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

This report, along with the *Annual Report on Development Cost Levies,* provides an opportunity on an annual basis to report to Council and the public on the wide range of public benefits and amenities which result from the collection of both DCLs and CACs from ongoing development in the city. It also provides an opportunity for us to articulate the clear alignment between current planning approvals, their associated contributions to public benefit commitments and the linkage with local community plans, the 10-year Capital Strategic Outlook, 4-year Capital Plan, and annual budgets, all of which reflect Council and community priorities. The two reports also describe and explain the City's financing growth tools and how they fit within the City's capital planning framework.

In 2014, new provincial guidelines for Community Amenity Contributions (CACs) were provided to local governments. In light of the new CAC guidelines, the City's existing and emerging CAC policies and practices underwent a comprehensive review. It concluded that, on an overall basis, the City's approach to CACs is generally consistent with the best practices recommended in the guide.

One area of particular concern raised by the provincial guide is the potential that CACs negatively impact housing affordability. The guide notes that CACs can indirectly impact housing affordability by reducing housing supply resulting in local demand not being met and market prices increasing. The City was concerned with this issue and made arrangements for an independent assessment of whether CACs negatively impact housing affordability in Vancouver. Coriolis Consulting was contracted to review the evidence and analyze this issue.

The Coriolis report finds that there is no evidence CACs are causing housing prices to rise and impact affordability in Vancouver. By looking at development activity within the City, the report found that CACs have had no direct impact on new housing supply or on the pace of new housing development. The consultant found that to the contrary, CACs have been associated with a very large increase in the City's capacity to absorb new apartment development and in some cases have been used to achieve the creation of affordable housing units that would not otherwise have been built. The study also found no difference in new housing unit prices when comparing projects that provided a CAC and those that did not. Coriolis' report concludes that it is much more likely that other factors have combined to affect housing prices in Vancouver rather than the City's CAC policy. The Coriolis report is found in Appendix D.

REPORT

Background/Context

Vancouver has a long history of managing growth strategically with careful attention to ensuring our city is sustainable, liveable and a place where our residents can enjoy a comprehensive array of public benefits all of which are essential to a healthy community and a robust and growing economy. Public benefits from new development contribute significantly to the sustainability and liveability of Vancouver. Public benefits are capital facilities and infrastructure that include parks, community centres, libraries, cultural facilities, childcare facilities, heritage conservation, affordable housing, public realm improvements, and public safety facilities.

Rezoning is the primary tool used to create additional density. In addition, density bonusing allows additional density to be approved in exchange for specified public benefits within existing zoning. Additional density generates new demands for services and facilities that result in additional growth-related costs. In order to address these needs, the City has developed rezoning policies that seek a voluntary contribution (Community Amenity Contributions) from most rezonings to help address these added costs to the city.

Public amenities provided for our residents are funded through the following sources:

- Property Tax and Utility Fees: The City's property tax and utility fees are the main funding sources for public benefits, which includes debenture and pay-as-you-go. Through the Capital Plan, Council prioritizes the City's needs for maintaining, improving and adding public facilities and utility infrastructure.

- Development Cost Levies (DCLs): DCLs are charged on all new development. They are applied on a per square foot basis and are payable at Building Permit issuance. DCL allocations to public benefits are limited by the Vancouver Charter for use only towards growth-related capital projects including parks, childcare, affordable replacement housing, and engineering infrastructure.

- Community Amenity Contributions (CACs): CACs are voluntary contributions toward public benefits provided by new development as part of rezoning approvals. CACs are offered by developers as in-kind facilities delivered with new development or as cash contributions and are payable at enactment of new zoning. CAC allocations can be applied toward a wider range of public benefits than DCLs.

- Density Bonus Zoning is a zoning tool that permits developers to build additional floor space in exchange for a range of amenities and/or affordable housing needed by the community. Density bonus zones allow for outright density (or base density) with no density bonus contribution, as well as a maximum density (or bonus density) which requires a contribution towards amenities and/or affordable housing. Financial contributions are determined by the density bonus contribution rate set out in the zoning bylaw.

- Contributions from senior government and other external funding partners.

- Contributions secured through conditions of development approval, such as those used for funding engineering servicing and public art.

See Appendix C for more details on development related funding tools for public benefits.

Improved documentation of additional density approvals and public benefits support the City's objective of providing more open and transparent civic government. In late 2010, a new standardized format was developed to record public benefits in all Council reports dealing with rezoning approvals. In addition, over the last 2 years, in parallel with the development and approval by Council of local area plans, a public benefit strategy is included in each community plan to help align public benefit allocations with the City's 10-year Capital Strategic Outlook, 4-year Capital Plan and annual Capital Budget.

There are a number of advantages to providing a comprehensive picture of public benefits from new development. Residents and community groups have an interest in better understanding how new development contributes towards public benefits, especially from rezoning. This report also responds to industry stakeholders who have asked for better reporting on the benefits towards which they have contributed. Clarity of identified public benefit needs through local community plans or city-wide strategic plans (e.g. Transportation 2040 Plan and the Housing and Homelessness Strategy) help to ensure contributions reflect identified needs and are integrated into the City's long-term capital and financial plans.

Strategic Analysis

This annual report is a summary of public benefit contributions arising from approvals of additional density in 2014. These benefits are typically secured at rezoning enactment or when a project is completed and the in-kind benefit is delivered. Not all public benefit contributions are under City ownership. For example, rental housing secured under the Secured Market Rental Housing Program, heritage restoration, and public art remain as private assets with public value.

Those public benefits secured under City ownership from approvals of additional density are reflected in the City's financial statement when they have been realized and brought into City ownership.

1) Approach and Methods for the Annual Report

The main approach and methods for this annual report are as follows:
Approvals and Time Frame

- This report addresses all additional density approvals from January 1, 2014 to December 31, 2014. To identify the public benefits secured from additional density, all rezoning approvals involving additional floor area, and all development applications where bonusing was used to allow additional floor area were reviewed.

- Rezoning metrics are based on development approvals at Public Hearing, while density bonus records are based on development approvals by the Development Permit Board. These approvals are all contained in publicly accessible reports available on the City's website (www.vancouver.ca).

Public Benefit Valuation

- Public benefits from new developments with additional density approvals are generally reported by type (e.g. housing, heritage, community facilities, etc.) and the estimated dollar value as documented in the rezoning reports that proceed to Council. However, for affordable housing, where the amenity is not owned by the City, the projects are quantified and reported by the number and type of housing units only.

- Bonus density for *heritage conservation* is the amount of additional density that equals the cost of conserving the heritage building. In this report, only bonus density that is actually accommodated on-site (i.e. where the heritage building is located), or bonus density that is transferred to another site are included. Bonus density placed in the 'transferable heritage density inventory' ('density bank') is not included but is tracked and reported separately on a periodic basis to Council. See Appendix C for more details on the heritage transfer of density system or see the Transfer of Density Program web page.

- Public art contributions associated with approvals of additional density (rezonings) are included as a public benefit. These contributions are calculated on a per square foot basis and applied to large rezoning applications. For more information, see the updated policy framework for the City's Public Art Program.

The absolute value of public benefit contributions in the annual report fluctuates significantly from year-to-year due to the cyclical nature of development which varies the number and scope of individual rezoning applications and their related incremental density approvals. In particular, approval of major project rezonings has an influence on both the amount of density and the value of public benefits contributed in a single calendar year. Due to the scale of these major projects, the public benefits secured are often provided on-site however the delivery of amenities is usually phased over many years of site redevelopment. The Oakridge Centre development is a good example of this.

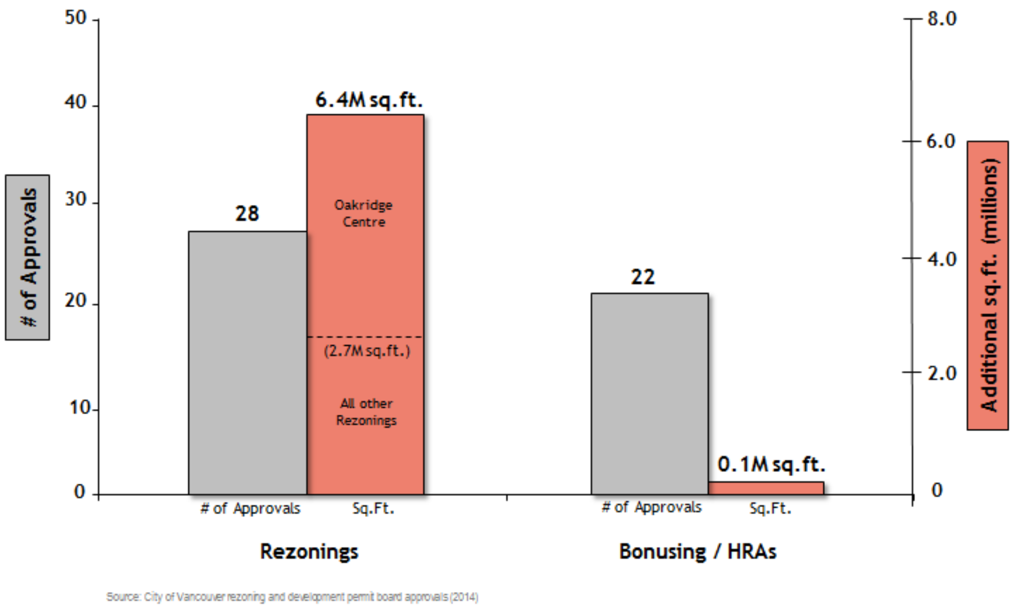
2) Analysis of 2014 Public Benefit Contributions

In 2014, there were 50 project approvals resulting in 6.5 million sq.ft. of additional density (see Appendix A for project details).

Compared to overall development activity, approvals of additional density occur infrequently. In 2014, there were approximately 1,400 building permits for new construction issued within existing zoning (building permit activity in 2014 was a record year). The 50 approvals of additional density (rezoning/bonusing) represent only 3.5% of this number. The vast majority of development in the city occurs within existing zoning (i.e. conforms to density, land use and design of existing zoning regulations). However, while the number of projects adding density to the City is relatively small, their impact on growth can be significant.

As shown in Chart 1, rezonings accounted for nearly 60% of additional density approvals and over 95% of the additional square feet approved in 2014. See Appendix C for a detailed description of approval mechanisms for additional density.

Chart 1: Approval Mechanisms and Additional Sq.Ft. (2014)



In 2014, there were 50 approvals of additional density resulting in secured public benefits totalling $234 million.

Table 2: Comparison of Public Benefits Secured (2010 to 2014)

Year	# of Approvals	Additional Density (millions sq.ft.)	Total Value of Public Benefits Secured ($ millions)	Additional Secured Market Rental Housing (units)
***2014**	**50**	**6.5**	**$234**	**1,073**
2013	45	2.6	$133	909
2012	44	2.4	$68	1,031
*2011	36	4.2	$180	602
2010	23	2.2	$27	106
Annual Average	39	3.6	$128	744

* Both 2014 (Oakridge Centre) and 2011 (Arbutus Centre) had major project rezoning approvals resulting in large public benefit contributions.
Source: City of Vancouver, 2010-2014

The year-to-year fluctuation and project-to-project variation of public benefits provided are due to the widely variable scope of rezonings (or bonusing). Projects differ based on existing land use, proposed uses, density and heights, and other factors which influence the nature and amount of public benefit offered.

In any given year, a major project rezoning approval can take place. Major projects are different than the majority of rezonings in that they are typically large, phased developments taking 10 or 15 years to build out and involving significant public benefit contributions. In 2014, the Oakridge Centre rezoning was a major project approval which accounted for the increase in 2014 public benefits secured (Oakridge included 3.7 million sq.ft. of additional density and $157 million in public benefit value). The Oakridge Centre project is expected to develop over a 10 to 15 year timeframe and will include 11 towers and 3 mid-rise buildings constructed over two floors of retail and service uses containing 2,914 residential units (including social housing), an increase in office and retail space, a 9-acre park, and a civic facility containing a new community centre, expanded library, seniors centre and a 69-space childcare facility. Approximately two-thirds of the public benefits secured and about 60% of the added floor area in 2014 were attributed to the rezoning approval of that one application at Oakridge Centre.

In 2014, 95% of additional density approvals aligned with recent community plans and accompanying public benefit strategies. Specifically, public benefit contributions resulted from development in the Cambie Corridor, Southeast False Creek, Northeast False Creek, West End, Mount Pleasant, and Downtown Eastside plan areas. The remainder of public benefit contributions (5%) were located outside of plan areas and associated with city-wide policies such as Rental 100 or heritage bonusing.

As experienced in previous years, the majority of additional floor area and contributions secured originated from a small group of rezoning approvals. In 2014, five large project approvals combined to account for 90% of all public benefit contributions secured (see Table 3).

Table 3: Large Project Approvals in 2014

Project Name	Additional Density Approved (millions sq.ft.)	Value of Contribution ($ millions)	Plan Area	Public Benefits
650 West 41st (Oakridge Centre)	3.7	**$157**	Cambie Corridor	Non-market housing (290 units), 9-acre park, 69-space childcare, community centre, library, seniors centre, public art & rental housing (290 units)
998 Expo Blvd	0.4	$20	Northeast False Creek	Contributions towards non-market housing, seawall upgrade, recreation space, heritage amenity, marine improvements, public art
1551 Quebec St	0.6	$11	Southeast False Creek	2.7 acre park, funding towards non-market housing, public art
8175 Cambie St	0.2	$10	Cambie Corridor	Co-located 37-space childcare & family place, public art
4949 Cambie St	0.1	$6	Cambie Corridor	Contributions towards affordable housing, heritage amenity, non-profit space, Queen Elizabeth park upgrades, public art
Total	**5.0**	**$204**		

Note: Values do not include secured market rental housing units
Source: City of Vancouver rezoning and development permit board approvals (2014)

From the $234 million secured in 2014, Council allocated $232 million or 99% of the overall total towards specific public benefits. Approximately 80% of these allocated funds were offered as in-kind contributions, meaning that they will be provided on-site when the new developments are constructed. The remainder of the allocated funds were offered as cash contributions, meaning that these funds have been assigned to specific public benefits by Council and will eventually transition into public benefit projects through capital planning and budgeting processes.

Chart 2 indicates the value of contributions that were secured by Council and allocated to specific public benefit categories (contributions not yet allocated were removed).

Chart 2: Breakdown of the Value of 2014 Secured Contributions Allocated by Public Benefit Category

Total = $232M allocated towards Public Benefits (99% of total)

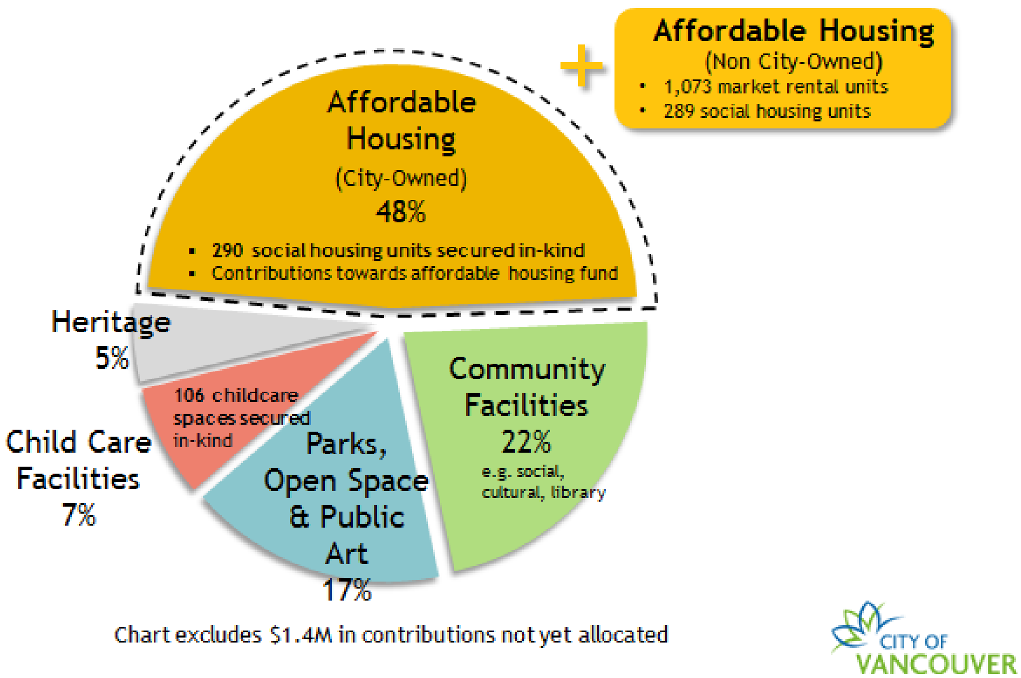


Chart 2 shows that:

- **Affordable Housing (City-owned)** was the largest recipient of public benefit contributions accounting for 48% of public benefit value ($111M). Included in that contribution total were 290 units of social housing secured in-kind and owned by the City.

  In addition, but not included in the $111M total, was a further 1,073 units of secured market rental housing – secured for the life of the building as rental but owned by private owners, and 289 units of social housing owned by the non-profit sector.

  Table 4 details the affordable housing commitments in 2014. Social housing units came from the following projects: Oakridge Centre (290 units); 706 West 13th

Avenue (230 units); and another 59 social housing units secured through 3 other approvals. On a rezoning at 998 Expo Blvd, land for future social housing units was secured for the City as an in-kind public benefit. There were also a number of cash-in-lieu contributions towards the affordable housing fund, originating from both Cambie Corridor rezonings and a Southeast False Creek rezoning.

This reflects Council's priority to increase housing supply for low and modest income households, and to increase the supply of secured rental accommodation.

Table 4: Summary of Affordable Housing Secured Contributions (2014)

	# In-Kind Social Housing Units	# Secured Market Rental Units	Value of Contribution ($ millions)
Housing Units secured for City ownership	290	--	$81
Land secured in-kind for City ownership	--	--	$10
Cash-in-lieu contributions to the City	--	--	$20
Subtotal	**290**	**--**	**$111**
Additional Housing Units secured but not owned by the City (excluded from the overall value calculation)	*289*	*1,073*	--
Total	**579**	**1,073**	**$111**

Source: City of Vancouver

- **Community Facilities** at 22% of overall allocated value ($52M) was the next largest recipient of public benefit contributions. The most prominent community facility secured was the 70,000 sq.ft. civic facility at Oakridge Centre which will include a community centre, seniors centre, and library (as well as a childcare centre which is included in the childcare section below). At 8175 Cambie Street, a new "Family Place" in-kind benefit will offer community programming. There were also cash-in-lieu contributions towards social/community facilities that originated from Cambie Corridor rezonings.

- **Parks, Open Space and Public Art** commitments accounted for 17% of overall allocated value ($40M). A 9-acre rooftop park was secured as an in-kind public benefit from the Oakridge Centre rezoning and a number of cash-in-lieu contributions were made towards park improvements. In addition, there were 10 public art contributions totaling $12.6 million.

- **Childcare Facilities** accounted for 7% of overall value allocated ($17M). Two in-kind childcare centres were secured through rezoning approvals, a 69-space childcare facility at Oakridge Centre and a 37-space childcare centre at 8175 Cambie Street. There were also cash-in-lieu contributions towards childcare facilities from rezonings throughout the City, including two contributions towards a future downtown childcare centre to be located in the Central Business District.

- **Heritage** through on-site preservation, accounted for 5% of overall public benefit value ($12M). Over half of all 2014 approvals included an element of heritage as a public benefit. Approximately $4.8 million in value was secured for on-site heritage preservation, and over $7.3 of density value was transferred to various development sites from the Heritage Density Bank.

In 2009, Council decided to temporarily delay the creation of new transferable heritage density and opted to draw down the inventory of 'banked' transferable density. In September 2013, Council approved a number of actions to further reduce the balance in the heritage amenity bank in order to maintain its viability as a heritage conservation tool. In 2014 applications for density transfers of approximately 115,000 square feet were approved. Combined with the one-time use of unallocated CACs to "purchase" 90,000 square feet from the bank, the heritage bank balance was down to 800,000 square feet at the end of 2014. This represents a 50% decrease in the bank balance since July 2009. See Appendix C for the heritage transfer of density system detail or the Transfer of Density Program web page.

Chart 2 does not include $1.4 million in contributions that were allocated towards the Cambie Corridor Public Benefits Strategy, but have not yet been allocated to specific public benefits within that plan area (represents less than 1% of the overall $234 million total value for 2014). All unallocated funds received by the City are set aside in a CAC reserve account, and these funds can only be spent on public benefits upon Council approval through capital planning and budgeting processes. Generally, these funds are allocated according to approved public benefit strategies or based on Council approved guidelines for cash contributions.

Secured Market Rental Housing

There were 14 approvals of secured market rental housing in 2014, resulting in the approval of 1,073 market rental housing units. A majority of the market rental projects shown in Table 5 were approved as rezonings with additional density. A smaller number were approved through bonusing within existing zoning. These rental units were secured as rental for the life of the building or 60 years, whichever is greater. When approved under the Secured Market Rental Housing Policy the program offers a number of incentives, where applicable, for developers. These incentives may include: DCL waiver on rental units; parking reductions; expedited processing; rental property assessment; and, bonus density. On May 15, 2012 Council approved the Secured Market Rental Housing Policy which replaced the STIR pilot program. The new policy and related amendments to the DCL by-laws are aimed at providing incentives for projects where 100% of the residential development is rental.

New rental housing represents an important public benefit and developing new rental housing is closely aligned with the City's priorities to address homelessness and affordable housing, building safe and inclusive communities, and improving environmental sustainability.

Table 5: Secured Market Rental Housing Units Approved in 2014

Address	# of Units
650 West 41st Ave	290
1155 Thurlow St	168
506 West 60th Ave	129
7350 Fraser St	95
3503 East Hastings St	87
308 East Hastings St	52
3120 Knight St	51
458 West 41st Ave	50
960 Kingsway	44
1412 East 41st Ave	42
2975 Oak St	36
1071 Cardero St	11
1546 Nelson St	10
2806 Cambie St	8
TOTAL UNITS	**1,073**

Source: City of Vancouver

Summary of Public Benefit Allocations: 2010-2014

Since 2010 when the City began formal tracking and reporting public benefit contributions from approvals of additional density, Council has allocated approximately $571 million to the following public benefit categories (excludes $71 million in contributions that were not allocated at the time of Council approval):

- 41% towards city-owned Affordable Housing (plus 3,721 privately-owned, secured market rental housing units, and 915 secured social housing units that are not city-owned);
- 18% towards Community Facilities (recreation, social, cultural, library);
- 16% towards Heritage (on-site preservation, transfers of heritage density);
- 15% towards Parks and Open Space (including public art);
- 7% towards Childcare; and,
- 3% towards Transportation.

Note that some of these categories also benefit from other development contributions including Development Cost Levies and rezoning conditions. Appendix B provides a map showing the location of rezonings that secured in-kind public benefits between 2010 and 2014.

Implications/Related Issues/Risk

Financial

Development Contributions for Growth-related Public Benefits - Development contributions through DCLs, voluntary CACs, inclusionary zoning and density bonusing play a significant role in enabling public benefits to address growth. They help advance key Council and community priorities, and relieve what would otherwise fall entirely onto property taxes and other City funding.

The 2015-2018 Capital Plan contemplates $1.1 billion of strategic investments in infrastructure, facilities and other public benefits to support the growing economy, incorporating Council and community priorities embedded in various Community Plans and associated public benefit strategies. It is anticipated that $303 million of DCLs and voluntary cash CACs would be allocated to help fund the Capital Plan, which translates to 28% of the total plan. For comparative purposes, in the final 2012-2014 Capital Plan, $162 million of DCLs and cash CACs were allocated, which translates to 20% of the total plan of $818 million (Note: Public benefits achieved through in-kind CACs, inclusionary zoning and density bonusing are not included in the Capital Plan).

The plan-over-plan increase in DCLs and cash CACs is due mainly to the evolution of the City's capital planning methodology. Prior to 2012, only City-wide DCLs were included in the Capital Plan. Since 2012, the City has provided a more comprehensive view of the capital investments across the City, and incorporated a wider range of development contributions. The 2012-2014 Capital Plan started to incorporate area-specific DCLs and some cash CACs. The 2015-2018 Capital Plan further incorporates a more comprehensive projection of DCLs and voluntary cash CACs over the 4-year period. (Note: In-kind CACs are not included in the Capital Plan, and will be added to the Plan as they are secured as part of development.)

Secured Public Benefits - Between 2010 and 2014, the City secured public benefits through additional density totalling $642 million (in-kind and cash) plus 3,721 units of secured market rental housing. In 2014, the public benefits secured were $234 million (in-kind and cash) plus 1,073 units of secured market rental housing.

While some of the public benefits (e.g. cash CACs, public art contributions) are achieved in the year when the additional density is approved, in-kind public benefits (e.g. affordable housing, childcare) are typically achieved over a longer period of time as the delivery of such benefits is linked to project construction. Cash CACs collected from development will be allocated to specific projects as part of the annual capital budget process.

Impact of Development Contributions on New Construction - Development contributions (DCLs and CACs combined), while significant in value, represent only a small percentage of the overall construction value in a given year. In 2014, the City received $173 million of development contributions, including $62 million in DCLs and $111 million in cash and in-kind CAC (note that the value of CACs received is different than the value of CACs secured which will be achieved over time). This is equivalent to ~6% of the 2014 construction value of $2.83 billion.

Ongoing Operating Budget Implications - In-kind public amenities that are constructed by developers and conveyed to the City upon completion, such as affordable housing, childcare, social or cultural facilities, will give rise to on-going operating costs for the City. As these amenities come on stream, the associated operating, programming, asset maintenance and rehabilitation costs will be determined and addressed through the long-term financial planning and annual budget processes. Other public benefits such as secured market rental, public art on private sites, and transfer of heritage density, will remain in private ownership and thus the associated operating and lifecycle costs would be the responsibility of the owner/developer.

Information from this report provides input into the City's long-term financial and capital planning framework and helps guide decision-making both at the city-wide level (e.g. 10-year Capital Strategic Outlook) and the community level (e.g. public benefits strategies).

CONCLUSION

This report focuses on all approvals of additional density occurring in 2014 and it describes the type and value of public benefits secured from these projects.

In 2014, there were 50 project approvals resulting in 6.5 million sq.ft. of additional density. Approvals of additional density in 2014 will result in public benefits valued at approximately $234 million. Approximately two-thirds of these public benefits ($157 million) and about 60% of the added floor area were attributed to one major project rezoning approval at Oakridge Centre (650 West 41st Avenue). Affordable Housing was the largest recipient of public benefit contributions, followed by community facilities, parks/open space/public art, childcare facilities, and heritage.

* * * * *

Appendix A: Approvals of Additional Density in 2014

#	Address	Local Area	Approval Type	Density increase (net sq.ft. increase)	Public Benefit(s)	Total Public Benefits Value ($)
1	650 W 41st Ave	Oakridge	Rezoning	3,704,532	•Housing - social housing (290 units) •Rental housing (290 units)* •Civic facility with library, seniors centre and childcare •Park •Unallocated Funds - Cambie Corridor •Public Art Policy	$156,972,359
2	998 Expo Blvd[1]	Downtown	Rezoning	418,403	•Land for social housing •Heritage - purchase of density •Parks and Open Spaces •Social / Community •Public Art Policy	$20,366,159
3	1551 Quebec St[2]	Mount Pleasant	Rezoning	624,525	•Housing - social housing •Public Art Policy	$11,163,736
4	8175 Cambie St	Marpole	Rezoning	254,304	•Child Care Facility •Family Place •Public Art Policy	$9,954,053
5	4949 Cambie St	South Cambie	Rezoning	137,248	•Affordable Housing Fund •Heritage - purchase of density •Parks and Open Spaces •Social / Community •Public Art Policy	$5,852,300
6	601 W Hastings St	Downtown	Rezoning	226,914	•Child Care Facilities •Public Art Policy	$4,412,162
7	320 Granville St	Downtown	Rezoning	237,922	•Child Care Facilities •Public Art Policy	$3,684,497
8	4187 Cambie St	South Cambie	Rezoning	60,098	•Affordable Housing Fund •Community facilities serving Cambie Corridor •Heritage - purchase of density	$3,305,390
9	508 W 28th Ave	South Cambie	Rezoning	53,576	•Affordable Housing Fund •Social / Community •Parks and Open Spaces •Heritage - purchase of density	$2,946,680
10	2975 Oak St	Fairview	HRA	11,183	•Heritage - onsite preservation •Housing - market rental (36 units)*	$2,200,000
11	5129 Cambie St	South Cambie	Rezoning	39,203	•Affordable Housing Fund •Parks and Open Spaces •Public Realm and Greenway Improvements •Heritage - purchase of density	$2,156,165

[1] 998 Expo – Land for social housing was offered as an-kind contribution which will be transferred to the city (valued at $11.5 million) with the potential to provide 250 – 300 units (2/3 will be social housing).

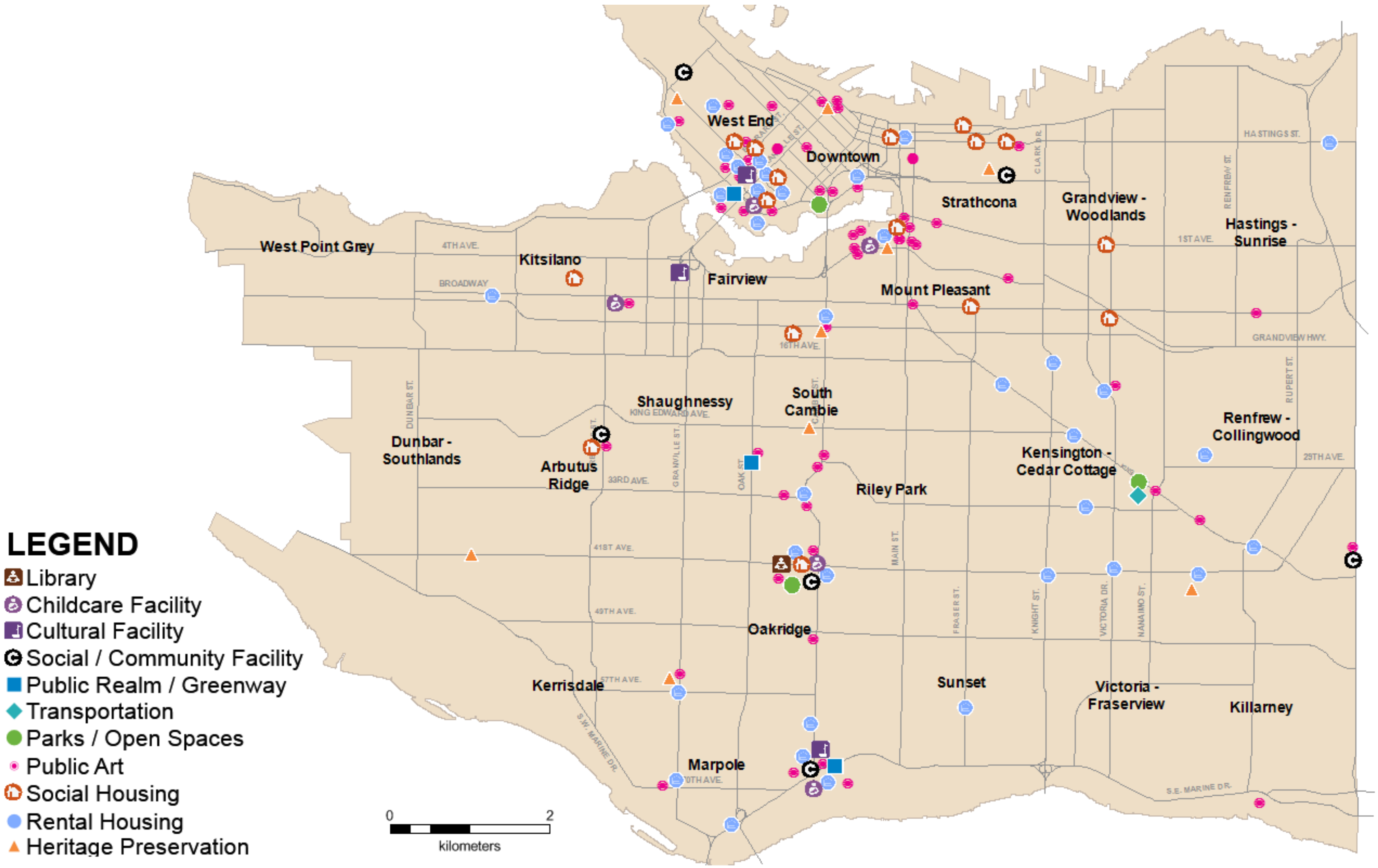
[2] 1551 Quebec – With significant additional funding (mainly DCLs and CACs), 137 units of social housing will be delivered on this site when fully developed.

#	Address	Local Area	Approval Type	**Density increase** (net sq.ft. increase)	Public Benefit(s)	Total Public Benefits Value ($)
12	4099 Cambie St	South Cambie	Rezoning	18,484	•Affordable Housing Fund •Social / Community •Heritage - purchase of density •Public Realm and Greenway Improvements	$2,000,000
13	563 W King Edward Ave	South Cambie	Rezoning	35,439	•Affordable Housing Fund •Child Care Facilities •Transportation •Heritage - purchase of density	$1,949,255
14	357 W King Edward Ave	Riley Park	Rezoning	25,711	•Affordable Housing Fund •Transportation •Social / Community •Heritage - purchase of density	$1,414,090
15	7790 Cambie St	Marpole	Rezoning	17,853	•Affordable Housing Fund •Transportation •Parks and Open Spaces •Heritage - purchase of density	$935,165
16	2806 Cambie St	Mount Pleasant	Rezoning	55,317	•Housing - market rental (8 units)* •Child Care Facilities •Public Art Policy •Heritage - onsite preservation	$694,905
17	2820 W 41st Ave	Kerrisdale	HRA	1,860	•Heritage - onsite preservation	$470,000
18	510 Seymour St	Downtown	Development Permit Bonus	6,552	•Heritage - purchase of density	$425,880
19	3345 Collingwood St	Dunbar - Southlands	HRA	847	•Heritage - onsite preservation	$400,000
20	587 W King Edward Ave	South Cambie	Rezoning/HRA	18,549	•Heritage - onsite preservation •Affordable Housing Fund •Transportation	$368,000
21	1451 Angus Dr	Shaughnessy	HRA	437	•Heritage - onsite preservation	$255,000
22	1155 Thurlow St	West End	Rezoning	108,736	•Housing - market rental (168 units)* •Housing - social housing (45 units)* •Public Art Policy	$239,336
23	235 Kingsway	Mount Pleasant	Development Permit Bonus	3,627	•Heritage - purchase of density	$235,755
24	2856 W 3rd Ave	Kitsilano	HRA	475	•Heritage - onsite preservation	$235,000
25	731 E 22nd Ave	Kensington - Cedar Cottage	HRA	1,805	•Heritage - onsite preservation	$225,000
26	6306 Prince Albert St	Sunset	HRA	1,202	•Heritage - onsite preservation	$147,000
27	737 Prior St	Strathcona	HRA	264	•Heritage - onsite preservation	$115,000
28	304 E 28th Ave	Riley Park	HRA	92	•Heritage - onsite preservation	$97,000
29	1328 W Pender St	Downtown	Development Permit Bonus	1,346	•Heritage - purchase of density	$87,490
30	1545 W 8th Ave	Fairview	Development Permit Bonus	1,130	•Heritage - purchase of density	$73,450
31	5805 Wales St	Victoria - Fraserview	Rezoning	25,421	•Heritage - onsite preservation	$65,000
32	2405 Cornwall Ave	Kitsilano	Rezoning	18,704	•Public Realm and Greenway Improvements	$56,112

#	Address	Local Area	Approval Type	Density increase (net sq.ft. increase)	Public Benefit(s)	Total Public Benefits Value ($)
33	826 E Georgia	Strathcona	Rezoning	223	•Heritage - onsite preservation	$50,220
34	1351 Continental St	Downtown	Text Amendment	732	•Heritage - purchase of density	$47,775
35	1188 Richards St	Downtown	Development Permit Bonus	56	•Heritage - purchase of density	$3,640
36	968 Howe St	Downtown	Text Amendment	1,228	•Public Art Policy	$2,223
37	706 W 13th Ave	Fairview	Rezoning	134,422	•Housing - social housing (230 units)*	$0
38	506 W 60th Ave	Marpole	Rezoning	66,449	•Housing - market rental (129 units)*	$0
39	7350 Fraser St	Sunset	Rezoning	49,717	•Housing - market rental (95 units)*	$0
40	458 W 41st Ave	Oakridge	Rezoning	26,935	•Housing - market rental (50 units)*	$0
41	3323 E 4th Ave	Hastings - Sunrise	Rezoning	25,743	•Housing - seniors (54 life lease units units)*	$0
42	3120 Knight St	Kensington - Cedar Cottage	Rezoning	23,498	•Housing - market rental (51 units)*	$0
43	1071 Cardero St	West End	Development Permit Bonus	21,914	•Housing - market rental (11 units)*	$0
44	1412 E 41st Ave	Victoria - Fraserview	Rezoning	19,028	•Housing - market rental (42 units)*	$0
45	3503 E Hastings St	Hastings - Sunrise	Rezoning	15,301	•Housing - market rental (87 units)*	$0
46	960 Kingsway	Kensington - Cedar Cottage	Rezoning	10,529	•Housing - market rental (44 units)*	$0
47	179 Main St	Downtown	Development Permit Bonus	6,488	•Housing - social housing (9 units)*	$0
48	626 Alexander St	Strathcona	Development Permit Bonus	5,727	•Housing - social housing (5 units)*	$0
49	308 W Hastings	Downtown	Development Permit Bonus	3,710	•Housing - market rental (52 units)*	$0
50	1546 Nelson St	Downtown	Development Permit Bonus	524	•Housing - market rental (10 units)*	$0
Total				**6,523,982**		**233,605,797**

Table Notes:
*Value of market rental housing is not included in total public benefit value
**HRA: Heritage Revitalization Agreement
Source: City of Vancouver rezoning and development permit board approvals (2014)

Rezoning Approvals that Secured In-Kind Public Benefits (2010-2014)



An Overview of DCLs and CACs
Heritage Transfer of Density
Mechanisms for Approving Additional Density

An Overview of DCLs and CACs

Development Cost Levies

Development Cost Levies (DCLs) are a growth-related charge on all new development. They are applied on a per square foot basis and are payable at Building Permit issuance. DCLs are governed by rules set out in the Vancouver Charter. DCLs are a very important source of revenue for civic facilities. Since they were introduced, over $400 million in funds have been collected from DCLs to help pay for growth-related facilities.

DCLs collected from development help pay for facilities made necessary by growth. Facilities eligible for DCL funding include: parks, childcare facilities, replacement housing (social/non-profit housing), and engineering infrastructure.

There are 10 DCL districts within the city and they are divided into three types of DCL districts, each with its own rates:

- The Vancouver (City-wide) DCL District applies to most of the city. Certain area-specific DCL districts and other planning areas/zones are excluded from the Vancouver DCL District.
- Area-specific DCL Districts. Developments in these districts are subject to the area-specific DCL and are exempt from paying the Vancouver DCL.
- Layered DCL Districts. Developments in these districts are subject to both the area-specific DCL and the Vancouver DCL.

Community Amenity Contributions

Community Amenity Contributions (CACs) are voluntary in-kind or cash contributions provided by developers 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. Examples of in-kind amenity contributions include childcare facilities or park space incorporated into the new development. Cash contributions may be put toward benefits such as these, and others including libraries, community centres, transportation improvements, cultural facilities and neighbourhood houses. Cash contributions are generally applied to off-site benefits in the surrounding community.

In a rezoning, CACs can be part of a public benefits package offered by the developer, which may also include the transfer of density from a heritage site, and/or affordable housing. CACs are typically in addition to Development Cost Levies, which are growth-related charges on all new development.

Community Amenity Contributions have evolved over recent decades to help provide growth-related amenities arising from new development. CAC Policies have been applied in various ways, corresponding to planning and land use change across the city.

All rezonings Downtown are processed with negotiated CACs on a site-by-site basis (see map). The rest of the city is covered by the City-wide CAC Policy, which sets out a framework for standard rezonings, non-standard rezonings, and exemptions from CACs. Standard rezonings use a flat rate target approach (currently set at a target of $3.00 per square foot of additional density). Non-standard rezonings use a negotiated approach on a site-by-site basis. Certain areas of the city have their own area-specific CAC and/or public benefit policies determined as part of Area Plans (e.g. Arbutus Neighbourhood, Southeast False Creek, Cambie Corridor, Norquay Village are examples of fixed rate target CACs).

Major projects, such as Southeast False Creek and East Fraserlands, that are comprehensively planned typically provide a full range of public benefits on-site. A specific public benefits package (including CACs) is developed based on area plans and community need.

To respond to project-specific conditions, the City uses a mixed CAC approach that comprises both fixed rate targets and negotiated CACs, which will continue to evolve over time.

Heritage Transfer of Density

The City of Vancouver offers a variety of incentives to achieve the conservation and legal protection of heritage resources. A frequently used incentive is granting of bonus density in exchange for the rehabilitation and legal protection of a heritage building. When it is not possible to use this bonus density by adding more development on the same site as the heritage building, City Council may authorize it to be made available for transfer to another site where there is opportunity for additional development. The sale of transferable heritage density generates funds for the owner of the heritage site; this helps defray rehabilitation costs.

The site of the heritage building is called the donor site. The site where the transferred density is to be used is called the receiver site. The City is not party to the negotiations between representatives of heritage sites and receiver sites regarding the sale of transferable density.

The amount of transferable density is specified in a Heritage Revitalization Agreement (HRA) between the Donor Site Owner and the City. The HRA also describes the conditions that have to be met by the Donor Site Owner, before any heritage density can be legally transferred.

<u>What are Possible Receiver Areas?</u>

City Council has established a “Transfer of Density Policy and Procedure” which identifies heritage conservation as one of the public objectives that can be achieved through a transfer of density.

This document states that it may be possible to transfer heritage density from donor to receiver sites throughout most of the Central Area. The zoning districts in the Central Area where potential receiver sites can be located are: the Downtown District (DD); the West End

(RM-5, RM-5A, RM-5B, C-5, C-6); and portions of Central Broadway (C-3A). Donor sites can be located in any of these districts and also the Chinatown (HA-1 and HA-1A) and Gastown (HA-2) zoning districts.

Outside of the Central Area, Council policy is that heritage density transfers may occur if the donor and receiver sites "are not separated by a zoning boundary or use, density or height district boundary in an Official Development Plan", and both sites are rezoned at the same time.

How Heritage Density Can Be Transferred to a Receiver Site

Heritage Density can be transferred to more than one receiver site. There are two ways in which density may be transferred:

1. Density Increase of up to 10%: In several of the zoning districts which encompass the Central Area, the Development Permit Board may approve a development application which requests an increase in density of up to 10% more than is otherwise permitted by the existing zoning. In doing so the Board will give particular consideration to the impact of a density increase on shadowing, floor plate shape and size, height and public views, as well as the opinions of any persons who consider themselves affected.

Council policy excludes the following as receiver sites:

- sites already receiving a 15 percent hotel bonus;
- sites already receiving a heritage density bonus;
- sites containing a single room occupancy (SRO) hotel, unless arrangements are made to secure or replace units; and
- sites zoned CD-1, unless a provision is included in the CD-1 by-law.

A receiver site may be eligible if it is in one of the above-noted zones in the Central Area.

2. More than 10% increase in density or receiver sites outside the Central Area: If the proposed increase in density is more than 10%, or the receiver site is located outside the districts listed above, a rezoning application can be made.

Mechanisms for Approving Additional Density

Rezoning

Each zoning district contains an intent statement about the City objectives for the district, a list of permitted land uses and regulations governing maximum height, site coverage, floor area (density) and related aspects of any development which may be permitted on a site. A rezoning is a legal change to the Zoning By-law, either initiated by the City following a policy planning study, or by way of a privately-submitted rezoning application.

Privately-submitted rezoning applications result in a Comprehensive Development District, or CD-1. CD-1 zoning is tailor made to a specific site or area. It is intended for unique sites or areas or to accommodate special uses or forms of development which do not fit within a standard zoning district schedule. Council may establish certain conditions (e.g. legal agreements or other arrangements) that must be met prior to the enactment of the CD-1 By-law, and other conditions (usually pertaining to design) that must be met before the approval of the development application. Rezonings may also include a Heritage Revitalization Agreement. Rezonings, whether initiated by the City or a member of the public, must be approved by City Council at a Public Hearing.

Developers often offer Community Amenity Contributions (CACs) to help address the increased demands that may be placed on City facilities and mitigate the impacts of a rezoning on the surrounding community as a result of a privately-submitted rezoning.

Development Permit Bonusing

Director of Planning discretion for additional density generally applies to development permit applications seeking small amounts of additional density in single and two family residential areas. Larger development permit applications in zoning districts in and around the Downtown require a more rigorous review process due to their size, significance, complexity or impact on the community. The Development Permit Board is authorized to consider additional density for many of these larger applications in return for a range of amenities. In some areas, the DP Board can approve an unspecified amount of additional density where a need for any public, social, recreational or cultural facility has been identified. Furthermore, the Development Permit Board is able to authorize an unspecified amount of additional density in most of the Downtown District Official Development Plan (DD ODP) area to provide for low cost housing (although this requires prior approval by City Council and the securing of a Housing Agreement).

Properties located Downtown (in zones RM-5, RM-5A, RM-5B, C-5, C-6, CD-1 as well as areas covered by the DD ODP) and portions of Central Broadway (zoned C-3A and located between Main St in the east and Burrard St in the west) can receive an additional 10% above the maximum density through the purchase of transferable heritage density. These transfers can be approved by the Development Permit Board. Transfers of heritage density beyond what is possible under existing zoning are generally approved by City Council through a rezoning process.

While not related to public benefits, the DP Board can also authorize up to 15% of additional density for hotel uses in many parts of the Downtown District ODP area.

Density Bonus Zoning

Density bonusing is used as a zoning tool that permits developers to build more floor space than normally allowed, in exchange for amenities and affordable housing needed by the community. Amenities can be community centres, libraries, parks, childcare centres, affordable housing and more.

Density bonus zones allow for:

- Outright density (or base density) with no density bonus contribution
- Extra density, up to a limit set in a zone, with a contribution towards amenities and affordable housing

Financial contributions are determined by the density bonus contribution rate set out in the zone. Density bonusing is currently being used in the RM-8/RM-8N and RM-9/RM-9N zoning districts within Marpole.

Heritage Designations and Heritage Revitalisation Agreements

When more density is being sought that can be approved by the Director of Planning in the rehabilitation of a heritage building, heritage designation may be required. In general terms, up to 10% of additional density can be granted if a property is designated. Designation of a heritage property requires Council approval. For developments requesting greater than 10% (or less than 10% if the development includes other significant variances from the Zoning By-law), a Heritage Designation, as well as, a Heritage Revitalization Agreement (HRA) are required.

An HRA, is an agreement between the City and an owner of a heritage property. Each HRA is unique and contains details on the duties, obligations and benefits negotiated by both parties. An HRA may involve variations to a number of by-laws, including zoning. The HRA supersedes zoning by-law and allows for more significant variations to the acceptable land uses, density and siting requirements (e.g. setbacks, maximum heights, etc.). If land uses or density are to be varied, HRAs must be approved by Council following a Public Hearing.

Development Permit Through Discretion

Some of Vancouver’s zoning regulations allow for small amounts of additional density to be granted by the Director of Planning at his or her discretion. The additional density provided through this mechanism is usually granted to help the restoration and designation of a heritage property and applies to single family and two family residential zoning districts. For example properties in the RT-3 zoning district (Strathcona) allows for infill in relaxations of the Zoning By-law, including floor space, to preserve the many single family heritage homes in the neighbourhood. Very small amounts of additional density (generally less than 3%) can be granted directly through the Director of Planning and it is typically associated with design performance.

APPENDIX D

CAC Policy and Housing Affordability: Review for the City of Vancouver

coriolis
CONSULTING CORP.

June 2014

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Summary

Introduction

The City of Vancouver approves a substantial amount of new residential and commercial development across the City every year. This growth requires new infrastructure and amenities, to meet the needs of new residents and businesses and to address the impacts of new development on the community. The City expects new development to pay a share of these costs.

One of the tools the City uses to obtain amenities from development projects is Community Amenity Contributions (CACs). When property is rezoned, to allow an increase in development potential, the City seeks a contribution in the form of on-site amenities, cash-in-lieu, or affordable housing. However, concern is sometimes expressed that the cost of these CACs could lead to higher housing prices. The City retained Coriolis Consulting Corp. to see if there is any evidence that CACs have directly or indirectly contributed to rising prices in the City of Vancouver.

The Financial Impact of CACs

Faced with a CAC, developers cannot just add the cost to their asking prices. Housing prices are set by overall supply and demand in the marketplace, so developers cannot unilaterally increase price on individual projects. Increased costs, including CACs, reduce the amount developers can pay for redevelopment sites. Rather than settle for reduced profit or transfer the cost forward to home buyers, developers try to transfer it back to land owners selling their land into the development market. It is the response of land owners to this downward pressure on land price that determines the impact of CACs. If fewer land owners put land into the market (because they don't see enough incentive to sell), the pace of new development can fall. Slower development in the face of strong demand puts upward pressure on the price of all housing.

However, the City only seeks CACs when property is rezoned. The CAC increases the cost of creating the project, but the rezoning also creates new land value by allowing a larger development opportunity. The impact of CACs, then, comes down to what happens to the increased land value created by rezoning. If the CAC eats up all of the increased land value, developers and land owners will have insufficient incentive to participate in the redevelopment process. If less new development happens, housing prices would increase. But if the CAC is calibrated appropriately so that the land value gain is shared among stakeholders there is the possibility of a win-win-win: land owners reap an increase in the value of property, developers find it rewarding to seek rezoning and develop projects, and the community obtains new amenities. On one hand, if CACs are too high not enough development can happen, but on the other hand without the benefits provided by CACs the pace of rezoning might be reduced due to community opposition. The key to sound CAC policy is to find the optimal mix of incentive for land owners, earnings for developers, new housing construction, and community benefits. Vancouver's CAC policy objective is to find this balance.

Market Evidence

Housing prices are high and rising in the City. The question is whether CACs are the cause. Here are some relevant facts related to the pace of development, the capacity for new development, and the City's CAC policy:

- Over the last 25 years, the City had almost 40% of total regional apartment construction, averaging about 3,200 units per year. Surrey and Burnaby combined achieved 1,700 units per year.
- This high share is continuing. In 2012 and 2013, Vancouver saw almost 8,900 new apartment units, 36% of the regional total. Burnaby, Surrey, Richmond, and Coquitlam combined had 8,700 units over the same two years.
- Almost half of new apartment development in the City of Vancouver occurs on land that is already zoned and for which no CAC is paid.
- Over the last 5 years, the City has approved rezonings faster than the new capacity is being used.
- The City has sufficient capacity in existing zoning and approved community plans to accommodate over 20 years of supply at the recent pace of residential development.
- CACs per unit are generally below the market value of the extra density provided by rezoning, meaning that a portion of the land value gain is available to land owners and developers as incentive to participate in redevelopment.
- New units in projects that paid CACs are selling for similar prices as units in projects that did not pay CACs. There is no empirical evidence that CACs are added onto housing prices.

Conclusions

There is no compelling evidence that CACs have constrained the pace of apartment development in Vancouver or contributed to increasing housing prices. The City absorbs over a third of all new apartments in the region, which is remarkable considering the large number of high density urban nodes under development across Metro Vancouver. Nor is there evidence that CAC policy has constrained the pace of rezoning. Rezonings are adding development capacity at a rapid rate and the City has capacity for more than 20 years of development. CAC rates generally leave considerable financial incentive for land owners and developers.

Housing prices are high and rising in Vancouver because there is strong demand from many sources including local households wanting affordable homes, affluent households shifting into apartments from single detached units, and non-local buyers. The City's CAC policy is not restricting development. In fact, CACs have been associated with a large increase in the City's capacity for new development, have paid for amenities that otherwise would have been funded by property taxes, and in some cases have created affordable housing units. CACs are not the cause of rising housing prices in the City of Vancouver.

1.0 Introduction

Metro Vancouver is a growing urban region, projected to increase from about 2.4 million people today to 3.5 million over the next three decades. To accommodate a share of the increasing population and employment, the City of Vancouver approves a substantial amount of new residential and commercial development across the City every year. This growth requires infrastructure and amenities to meet the needs of new residents and businesses and to address the impacts of new development on the communities that are absorbing the redevelopment and increased density.

The City uses various sources of revenue to pay for the capital costs of needed new infrastructure and amenities. Some capital expenditures, which benefit existing residents as well as meet the needs of growth, are paid by the entire community through property taxes. For infrastructure and amenities that are mainly required to serve the residents of new development or to address the impacts of new development, the City expects new projects to pay a share of the cost. This is common across Metro Vancouver (and elsewhere in North America) and has been part of the development approvals process in BC municipalities for decades.

"CACs are negotiated contributions from developers who recognize that when a property is rezoned to a higher density, the increased population can create the need for more community amenities and services. By sharing the benefits made possible by increased development rights and land value, property developers, through CACs, can help make sure that Vancouver remains a great place to live".

~ ***City of Vancouver, "Rezoning & Community Amenity Contributions: Negotiating for a More Livable City".***

One of the tools the City uses to pay for the costs of growth is Community Amenity Contributions (CACs). When the City rezones land, to allow a change in use or increased density, the City creates new capacity for development, particularly new housing supply which helps address the affordability challenge in this region. The new development generates the need for amenities, but because rezoning adds value to land there is also financial capacity for the new development to contribute to the cost of the amenities.

When seeking contributions for amenities from developers, it is essential to make sure that development projects remain financially attractive. After all, the objective of CACs is to help meet the needs of an increasing population occupying a growing housing stock, not to impede development. There is a need for balance.

"The right balance ensures that developers make a fair profit for the risk they take, the housing supply continues to grow (which contributes to affordability), and our neighbourhoods maintain the high standard of livability that our city is internationally renowned for."

~ ***City of Vancouver, "Rezoning & Community Amenity Contributions: Negotiating for a More Livable City".***

However, in expecting new development to contribute to the cost of new services and amenities, the City is sometimes criticized for increasing the cost of development and for the length of approval processes that impede the pace of development, leading to increased housing costs and exacerbating the housing affordability problem. This concern about cost and red tape has been voiced across BC in many municipalities that use CACs to help pay the costs of growth.

> ***"It is important that local governments recognize the relationship between CACs and housing affordability and make efforts to balance the opportunity to obtain public benefits, such as community amenities, with the goal of helping families secure affordable housing."***
>
> ***~ Ministry of Community, Sport, and Cultural Development, "Community Amenity Contributions: Balancing Community Planning, Public Benefits, and Housing Affordability." March 2014, Page 3.***

The significance of the housing affordability challenge and the role of CACs in planning and urban development has prompted the Province of BC to publish a guide with suggestions for how municipalities should go about obtaining CACs to help finance the costs of densification and growth. The Province rightly points out the need for municipalities to seek an appropriate balance between the goals of facilitating the development of a steady stream of new housing supply, maintaining housing affordability, and providing the infrastructure and amenities to meet the needs of a growing community.

In light of the Province's recent guide, and the concerns articulated by the Province and the urban development industry about the possible impact of CACs on new housing supply and affordability, **the City of Vancouver wants to know if there is any evidence that the City's record in achieving amenity contributions has come at the expense of constrained development activity or has caused, directly or indirectly, upward pressure on housing prices.**

The City retained Coriolis Consulting Corp. to provide an independent evaluation of whether there is any evidence indicating that CACs have had a negative impact on the pace of new housing construction or the price of housing in Vancouver.

Coriolis is a Vancouver-based consulting firm specializing in market and financial analysis for urban development projects, urban planning, and urban development policy.

2.0 Scope

This review is looking for empirical evidence that CACs can be linked to increased housing prices in the City of Vancouver. The review first explains how CACs work and their potential effect on urban land markets and new development, in order to indicate what kind of evidence should be examined to see if CACs have affected prices. Next, relevant available statistical indicators are examined to see if there are signs that CACs have added to the affordability problem. This review does not address the legal, administrative, or procedural aspects of the City's CAC system.

3.0 Planning, Urban Development, and Zoning: The Context for CACs

As the core of an exceptionally attractive urban region that attracts new residents, jobs, and investment, the City of Vancouver is under great pressure to accommodate new housing and commercial development. This pressure for urban growth causes challenges in planning the future of neighbourhoods and financing the construction of community infrastructure.

The City has little vacant land, so creating more capacity for housing and businesses means increasing density through redevelopment of existing uses. Higher density can make communities more livable and sustainable, adds to housing choice, and is supportive of public transit. However, densification can have negative impacts too, so the City must try to respect neighbourhood values and address the concerns of existing communities when approving new development. Densification challenges the City to figure out how best to pay for the infrastructure and amenities that are necessary to meet the needs of a growing population and to address the impacts of growth.

Not accommodating new development would certainly reduce the need for new community infrastructure, but restricting the supply of new housing in the face of strong demand would push up prices even more, making the regional housing affordability situation worse than it already is. The creation of a steady supply of additional housing units in the region is one of the few means of moderating the increase in housing prices and accommodating population growth in an attractive region where the mountains, the sea, the US border, and agricultural lands constrain the urban land base.

To respond to these challenges, the City of Vancouver has over the last several decades taken an approach to managing growth that can be summarized as follows:

1. The City accepts the need to accommodate urban development to provide more housing and job space. Like the other municipalities in Metro Vancouver, the City supports the Regional Growth Strategy and accepts a share of total regional development. The City creates the new capacity for this urban development by adopting area plans and rezoning lands.
2. The City focuses new development in locations that are well-served with public transit and well-suited to become neighbourhood centres with shopping, open space, schools, and other amenities.
3. The City uses an approach to funding new community infrastructure and amenities that relies on various revenue sources, including property taxes and mechanisms to allocate some of the costs to new urban development.

This approach has resulted in a large increase in development capacity through rezonings, a large share of the total amount of urban development in the region, and significant contributions toward community infrastructure and amenities from new development.

Vancouver is not alone in looking to new urban development to shoulder some of the load to create new amenities. Many municipalities in BC (in North America, for that matter) have been struggling with the need to fund infrastructure to accommodate increased population and employment. Local governments have few alternatives to fund the capital cost of community-building. They can raise property taxes, although there is strong pressure from existing residents and businesses to avoid tax increases, especially when the need for infrastructure and amenities is caused by new development. So, many municipalities have looked for ways other than property tax to pay some of the costs of growth and, in particular, they have looked for means by which new urban development can contribute.

Municipal law and municipal development approvals processes in BC have evolved over the years to incorporate the idea that it is reasonable for new urban development to contribute to the cost of community infrastructure and amenities. The City of Vancouver has a special piece of legislation (the Vancouver Charter) that defines its municipal powers, but it is similar in concept to the powers granted to other BC municipalities via the Local Government Act and the Community Charter. The City has four main ways to obtain contributions for community infrastructure and amenities from private urban development projects:

Adjacent Works	The City can require a new development project to pay for upgrades to roads, sidewalks, and services adjacent to the site.
Park Dedication	The City can obtain park land from a site that is being subdivided. In Vancouver this only happens occasionally, when a very large site (usually formerly industrial or large commercial) is rezoned and subdivided.
DCL	The City can charge a levy (called a Development Cost Levy, or DCL) on all new urban development to pay for general infrastructure upgrading. However, the DCL can only be used to pay for a limited array of items: park land acquisition and park development, child care facilities, replacement affordable housing, and engineering infrastructure (roads, water, sewer, drainage).[1] One good feature of DCLs is that they apply to all development, whether or not rezoning is required. One major limitation of DCLs is that they cannot be used to pay for libraries, community centres, fire halls, public art, transit facilities, heritage building preservation, civic facilities such as galleries or theatres, or many other amenities that are part of a complete, livable community.
CAC	The City can seek community amenities and infrastructure when rezoning property to change its use or increase its allowable density. These are called Community Amenity Contributions or CACs. CACs can only be achieved when property is being rezoned, but they have the advantage of being applicable to a wider range of amenities and infrastructure than DCLs.

CACs are only sought when property is proposed for rezoning. The City considers whether the new development will create a need for new amenities or infrastructure that cannot be fully funded by DCLs and it considers whether the project will have impacts that should be addressed. As appropriate, the City then

1 In other BC municipalities this levy is called a Development Cost Charge, or DCC, and it is applicable to a smaller range of items including park land acquisition, roads, water, sewer, and drainage.

negotiates with the developer to try to reach agreement on a package of public benefits that the developer will provide if the rezoning is approved. In some cases the negotiations are site-specific, but in some cases the negotiations are within the context of targets that have been defined by the City for a whole neighbourhood.

For CACs to be an effective and constructive means of obtaining amenities, several important conditions ought to exist:

- Rezoning (whether a change in use and/or an increase in density) should be based on sound community planning; the change in use should be consistent with broad City policy and planning objectives and the change in density (often with an increase in height) should be appropriate in terms of urban design, transportation, engineering, and neighbourhood character considerations.
- The extra density available via rezoning must be regarded as marketable and profitable by developers or redevelopment will not happen.
- The CAC system must be consistent with applicable laws.
- New development projects, after rezoning and the payment of any CACs, must be financially attractive from the perspective of unit buyers, the developer, and whoever is selling the land to the developer in the first place. If the developer cannot make a profit or the land owner cannot achieve a sufficient price for land, new development projects will not happen.

4.0 CACs and Urban Land Economics

In order to understand whether, or under what circumstances, CACs could affect housing prices, it is necessary to understand how the payment of a CAC becomes integrated into the financial performance of a development project and how, in turn, this could affect the housing market.

We can consider three possible consequences of adding the cost of a CAC to new residential development:

1. Buyers have to pay more for units to cover the extra cost.
2. Developers achieve lower profits, which could reduce the number of projects completed.
3. Developers offer less for development sites. If this causes fewer land owners to be willing to sell their land, the overall pace of development will slow.

All of these look plausible at first glance, but only one stands up under scrutiny.

Do Unit Buyers Pay More to Cover the CAC?

The idea that developers just add the cost of a CAC to unit prices seems like a possible outcome, but this is a deceptively simplistic way to look at it. In reality, developers do not price new units by just adding up the costs and then adding a profit margin. If this were true, why would developers worry about managing any of their costs? A housing unit on a site that needed soil remediation would cost more than the same unit across the street on a clean site. A housing unit in a project that had a cost overrun due to a mistake would cost more than the same unit in a better-managed project. It is true that developers can add features and therefore costs that create value (better kitchens for example), but costs that do not add value for buyers cannot simply be tacked on to the price. If developers could arbitrarily add thousands of dollars to the price of new units (because of something like a CAC), why aren't they doing it already and making more money? They can't because the market is competitive. Prices are set in the market based on the ability of purchasers to pay (demand) and the amount of new product developers create (supply). As stated in the Province's guide, "Developers know that they cannot simply raise their asking prices when faced with additional costs; that the selling price is set by the market" [2].

There is also good empirical evidence that CACs are not simply added to unit prices. Exhibits 1 and 2 compare the selling prices of new units in some similar recent projects in the City of Vancouver that were developed under existing zoning and paid no CAC versus units in projects that involved rezoning and paid CACs.

[2] "Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability", Ministry of Community, Sport, and Cultural Development, March 2014, page 15.

Exhibit 1: Examples of Similar Concrete Multi-family Projects Currently Selling in Vancouver: *West Side* (2014)

	Project Name	Address	# of Units	Total CAC	Blended Average Sales Price per sq.ft.
Developed under existing zoning and did not pay a CAC	Arbutus Ridge	3131 Arbutus St	49	$0	$870
	Pinnacle Living	2080 W Broadway	134	$0	$759
	Musee	1690 West 8th Ave	56	$0	$725
	Kits 360	1777 W 7th Ave	250	$0	$732
Developed through rezoning and paid a CAC	6th & Fir	1565 W 6th Ave	47	$1,576,000	$830
	Empire at QE	4599 Cambie St	175	$6,500,000	$795
	Prelude	6311 Cambie St	52	$2,200,000	$710
	Forty-Nine West	6399 Cambie St	63	$2,664,000	$750

Sources: Sales data is from MPC Intelligence and CAC data is from the City of Vancouver.

Exhibit 2: Examples of Similar Concrete Multi-family Projects Currently Selling in Vancouver: *Mount Pleasant & SEFC Area* (2014)

	Project Name	Address	# of Units	Total CAC	Blended Average Sales Price per sq.ft.
Developed under existing zoning and did not pay a CAC	Collection 45	133 East 8 Ave	45	$0	$650
	South Creek Landing	2211 Cambie St	15	$0	$860
	Shine	289 E 6th Ave	93	$0	$620
Developed through rezoning and paid a CAC	Opsal	1775 Quebec St	173	$7,135,928	$690
	Meccannica	108 East 1st Ave	165	$1,459,672	$670
	The Residences at West	1751 Manitoba St	199	$19,484,000	$642

Sources: Sales data is from MPC Intelligence and CAC data is from the City of Vancouver.

The sales prices show that units in CAC-paying projects are in the same price range as similar units that did not pay CACs. There is no evidence that the CAC was simply added to unit price.

Do Developer Profit Margins Fall?

The second possible outcome is that developers absorb the cost of CACs and accept lower profit margins. Examining the performance of development projects over the long term indicates that this does not happen. Developers require a threshold profit margin (usually expressed as a percentage of selling price or a percentage of cost) in order to make it worth taking the risk of developing a new project and in order to demonstrate to prospective lenders that the project is financially viable. As stated in the Provincial guide: "The cost of development has increased significantly over time…there is no evidence to show that such cost increases have reduced developer profit. In fact, developer profit margins have remained remarkably stable over time."[3] If the financial performance of a potential development project is too weak to support the profit target (relative to the associated risk), the developer will simply not do the project.

So, if developers cannot unilaterally raise selling prices to recover the cost of a CAC and if developers will not accept lower profits, where does the CAC "go"?

[3] "Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability", Ministry of Community, Sport, and Cultural Development, March 2014, page 14.

The answer is found by understanding how developers figure out how much to pay for land.

When planning a new project, developers estimate the revenue they will receive from selling the completed new product. Then they deduct all construction costs (including labour, building materials, professional services, financing costs, and known municipal charges or amenity contributions). Then they *deduct the amount they target for profit*, because they are not interested in projects that will not support their profit expectation. What remains is the maximum amount they can afford to pay for land. If a cost goes up (whether the cost of concrete or the cost of a municipal payment such as a DCL or CAC), the effect is to reduce the amount a developer is able to offer to buy a development site.

The primary impact of a new cost, such as the payment of a CAC, is to lower the bid price for development sites. The important question, then, is what do land owners do when faced with this situation?

So, the primary impact of a new cost, such as the payment of a CAC, is to lower the bid price for development sites. The important question, then, is what do land owners do when faced with this situation?

Do Land Owners Withhold Sites From the Market?

In considering the impact of reduced bid prices for redevelopment sites, it is important to understand that land is fundamentally different from other forms of capital. Labour can shift to other occupations or job markets and materials can be moved to other locations in response to local market price changes, but urban land can't move; its value is totally dependent on where it is and what it can be used for.

There are three possible outcomes for any given site when there is an increased development cost that puts downward pressure on land value:

- The land owner decides not to sell the site. Because the owner sees insufficient incentive to sell, the consequence is that there could be less land available to developers, so the overall pace of new development could fall. In the face of strong housing demand, turning down the tap on the flow of new units will lead to increases in housing prices, not just for new units but for all stock. Any increased cost imposed by local government that puts downward pressure on the ability of developers to buy land has a risk of reducing the availability of land for development. The aim of CAC policy should be to make sure that developers, after paying additional costs, can still bid enough for sites that the flow of land to the development market is maintained.

- The second possibility is that users or investors who want to hold the property in its present use can pay more than developers can pay to buy the site for redevelopment. This is usually true of properties with new valuable improvements, because developers can't afford to buy newer buildings just to demolish them. It can also be true of single detached homes or older properties that generate strong income. Many of the older low density commercial buildings along main shopping streets in the City remain in their current form, even though they are already zoned for higher density, because the retail rents are so high that investors are willing to pay more to buy and hold the property (for income) than developers can afford to pay as a redevelopment site. At any given time in the City, there is a mix of sites that are holding properties and sites that are redevelopment candidates. An increase in development cost can shift this mix, reducing the number of available development sites, which reduces the flow of new units, which indirectly pushes up housing prices.

- The third possibility is that even if a new cost reduces the amount developers can pay for a site, they can still pay enough to convince the land owner to sell and enough to outbid investors who want to buy holding properties.

Which of these is most likely? If zoning stays the same, a significant development cost increase could mean developers bid less for land, resulting in reduced land availability for new projects, which would over time result in higher overall prices in the housing market. But CACs are only obtained when property is rezoned; *rezoning adds new land value* and *increases the capacity for development*.

CACs are only obtained when property is rezoned; rezoning adds new land value and increases the capacity for residential development.

What Happens to the New Land Value Created by Rezoning?

To understand the impact of CACs, then, it comes down to understanding what happens to the new land value that is created by rezoning and the impact this has on the various players in the urban development process. There are three groups who might expect to benefit from the new land value created by rezoning:

- Land owners may think this increased value is theirs because they believe that owning property means owning all future gains in development potential including rezoning. They may be unwilling to sell their land unless they get some of the lift in value from rezoning.

- Developers may think they earn this increased land value because they pay the cost of achieving the rezoning (fees, consultants, time), they absorb risk (not all rezonings are approved), and they have the vision/expertise to implement the redevelopment. Note that there is a difference between the gain in land value from a rezoning and the profit earned by doing a development. Regardless of what happens to the increased land value, developers will still earn the profit on developing the new project on the rezoned land. CACs should not reduce the profit (such that a developer building 100 units on an already-zoned site and a developer building 100 units on a similar site needing rezoning should end up earning similar profits), but developers may think that they should also receive a portion of the land value gain because of the added risk and cost of rezoning.

- The municipality (as a corporate entity and as a community) may perceive that rezoning adds development capacity that puts new loads on existing services, so some of the value gain created by rezoning should fund new amenities to meet the needs of the increased population. There may also be a concern that rezonings are not acceptable to the broader community, and might not be approved if politically unpopular, unless some community benefits result.

Land owners, developers, and municipalities all have a claim on the increased value created by zoning. The allocation of this value among the three parties will affect, for any given site, whether rezoning and redevelopment are likely to proceed.

Case Study

The following example illustrates how a rezoning and CAC might play out in an area where rezoning is anticipated. This "case study" is hypothetical and not associated with an actual project. The case study does not use numbers, because the values (for new units, for land, for CACs) vary widely across the City. The case illustrates in conceptual terms how CACs are incorporated into the economics of development.

The example is presented in three parts:

- Part 1 describes an existing property and the redevelopment potential under the proposed rezoning.
- Part 2 shows how the financial performance of the redevelopment of the site is viewed by the developer considering acquiring the site.
- Part 3 shows the potential allocation of the additional land value that results from the rezoning.

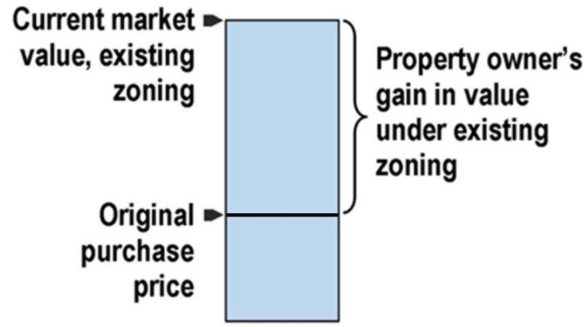
CASE STUDY PART 1: SITUATION

This hypothetical case study assumes the following situation:

- An existing older single family home was purchased several years ago by the current owner. The house has increased considerably in value since the original purchase, even without any consideration of rezoning.
- The lot is zoned for single family residential use.
- The lot has been identified in a City Plan as part of an area suitable for multifamily residential at increased density, subject to rezoning. The City Plan includes a policy to seek CACs from sites being rezoned.
- The current owner is willing to sell, but intends to buy a home of similar value in another location so needs a financial incentive to sell.

The graphic shows that the current owner has made money, due to the strong growth in single family house prices. But to move into a similar quality home, the owner needs to put all of this money back into the new property. To have an incentive to sell, therefore, the owner needs to receive the full market value **plus** the cost of moving, the cost of fees and taxes associated with buying and selling, the cost of any upgrades that are needed to make the new home comfortable, and presumably some incentive to make the whole process worthwhile.

This owner would not move without being paid materially more than the current market value of the house. If the owner does not see sufficient incentive, and does not sell, this potential redevelopment site is not available to developers.

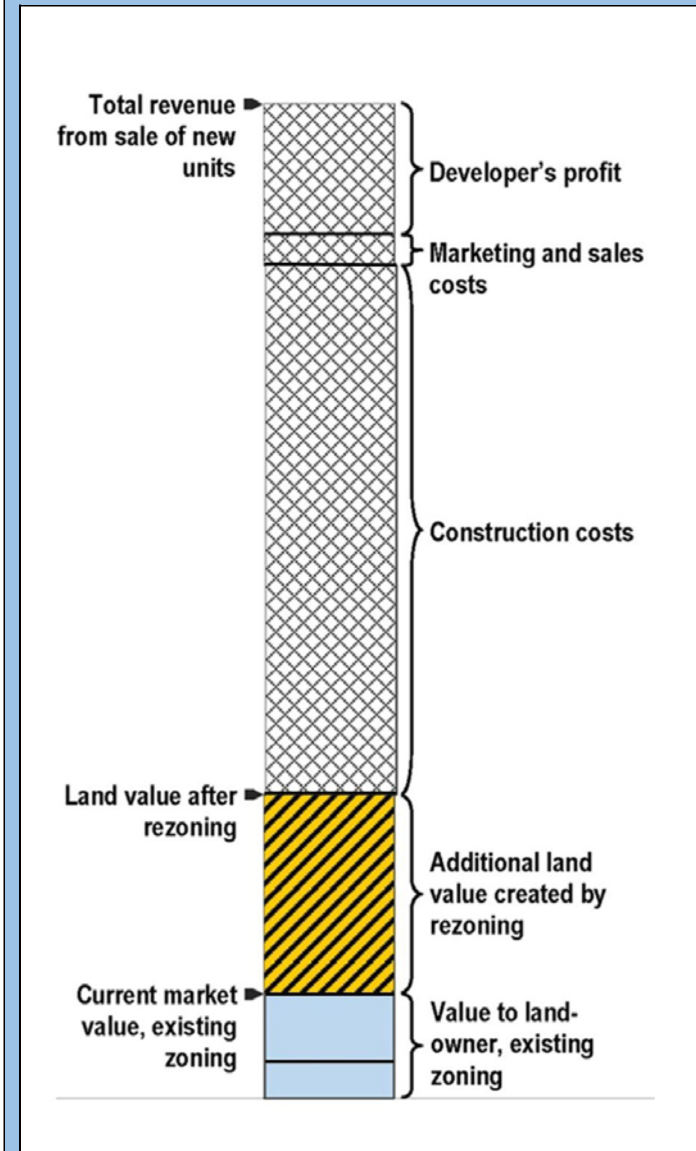


CASE STUDY PART 2: FINANCIAL ANALYSIS OF REDEVELOPMENT

The next step is to look at the financial performance of the redevelopment project (with rezoning) from the perspective of the developer.

The developer estimates the total revenue from the sale of the new apartment units in the project. The developer then deducts from this total an allowance for profit, deducts marketing costs, and deducts all of the construction costs for creating the project (including all labour, materials, consultant costs, fees and permits, insurance, property taxes during construction, service connections and so on).

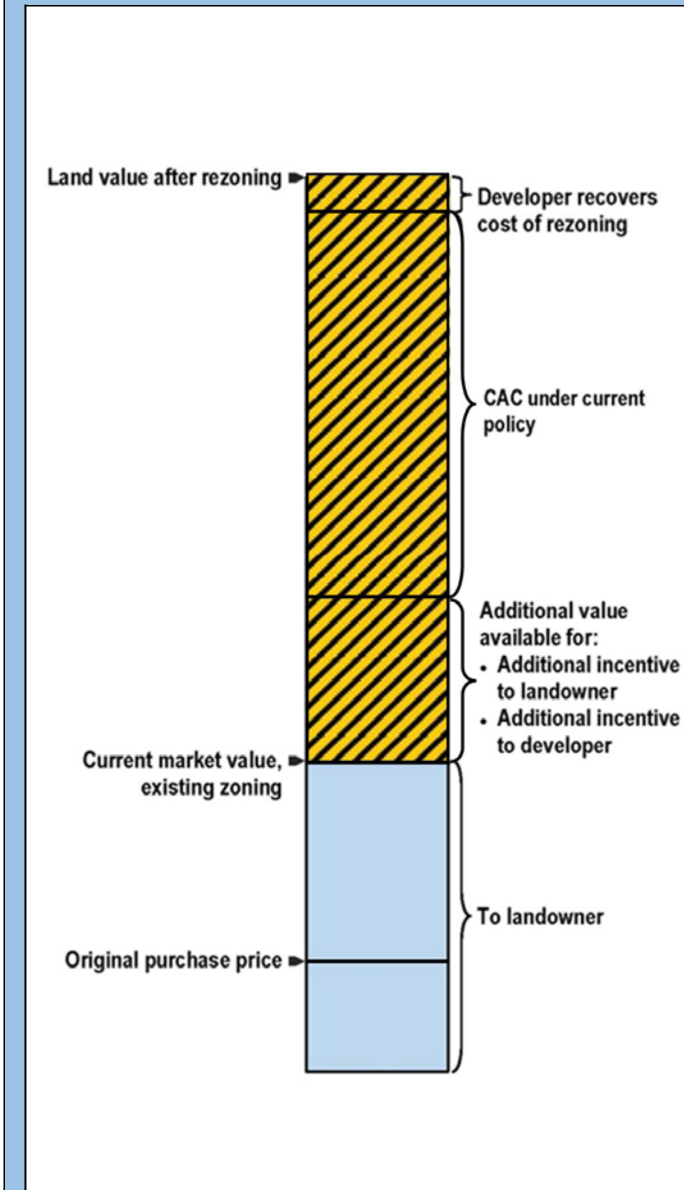
The amount left over is the maximum total the developer can pay for land and related costs. In this case, the land is worth considerably more under the new zoning than it is worth as a single family house under existing zoning. The *difference* between this rezoned value and the market value of the property under existing zoning is the additional land value that is generated by rezoning. This is the amount (shown in the diagonal hatch in the graphic) available to be allocated among the land owner, the developer, and the municipality (in the form of CACs).



CASE STUDY PART 3: ALLOCATION OF INCREASED LAND VALUE

Part 3 shows how the increased land value (in diagonal hatch) that results from rezoning can be allocated among the stakeholders:

- The developer needs to recover the cost of the rezoning.
- The CAC policy calls for a contribution to public benefits. The cost of the CAC comes out of the increased land value.
- This leaves a portion of the increased value available for some combination of paying a premium for the property (i.e. the incentive that entices the existing land owner to sell and move somewhere else) and providing additional developer profit. In a competitive development market, developers competing for sites will generally bid up prices to the maximum that still allows them to make a typical profit, so it is likely that much of this would go to the land owner. So, the land owner receives the current market value of the lot *plus* a share of the extra value resulting from rezoning.



Note that there are some things that the CAC does not do in this example:

- The CAC does not reduce developer profit. Part 2 of the case study shows that the developer budgets a profit before deciding how much to pay for the land. Part 3 shows that there is potential to increase this profit, depending on how much of a premium is paid to buy the site.
- The CAC does not take any of the increase in the value of the property as a single detached home since it was purchased. That gain all goes to the land owner. In addition, the land owner has the opportunity to gain a premium by obtaining part of the land value gain due to the rezoning.
- The CAC has no effect on the price of the new units. Prices are determined by the market and not affected by any cost item. The CAC is paid out of the increase in land value from rezoning.

Implications of Case Study

The simple illustrative case study shows that CAC policy creates the possibility for a win-win-win:

- The land owner has the potential to achieve a premium over the market value of the property. The owner can acquire a new home of equal value, cover all of the costs of moving, pay for some renovations, and pocket a significant gain which in this case would be non-taxable as it is the sale of a principal residence.
- The developer has the opportunity to earn profit from the project, recover the costs of the rezoning, and possibly retain some of the increased land value depending on how much incentive must be offered to the land owner.
- The community achieves public benefits that help mitigate the impacts of growth.

However, this outcome would be unachievable under different circumstances:

- If the land owner won't sell, even if offered a substantial premium.
- If the developer expects the lion's share of the extra land value, so the land owner does not have enough incentive to sell.
- If the local government or community expects so much public benefit that there is insufficient incentive for the developer or land owner to participate in redevelopment. This is why CAC policy must strike an appropriate balance in the allocation of the land value gain from rezoning.
- If the community sees insufficient benefit or unacceptable impacts, after considering the CAC, resulting in sufficiently strong and successful opposition to rezoning that the whole issue of financial viability is moot.

Clearly, there is an optimal target for CAC policy: finding the right mix of incentive for land owners, compensation for developers, and community benefits that enables rezoning and new development to proceed at a pace that is not impeded by the CAC policy. This is the balance that is called for in the Provincial guidelines and in the City of Vancouver's policy statements.

There is an optimal target for CAC policy: finding the right mix of incentive for land owners, compensation for developers, and community benefits that does not impede the pace of rezoning and new development.

5.0 City of Vancouver CAC Policy

The City's current CAC policy can be summarized as follows:

- In several defined neighbourhoods, the City has established a target for the CAC contribution (expressed in terms of $/sq.ft. of additional density) it aims to achieve from rezoning. These targets range between $10 to $55 per square foot of additional density in most areas. The amount is based on an assessment of public benefits required to meet the needs of new residents (and the associated costs) and on the economics of development, which vary widely in the City.
- In other circumstances, CACs are negotiated on a site-by-site basis. The amount and nature of the CAC depends on site size, site features, proposed development concept, an evaluation of the project's demands on amenities and services, an evaluation of the project's impacts, and market/financial conditions.
- Several types of projects are not expected to pay CACs, including low density housing, some institutional uses, social housing, heritage projects, or public schools.

In the past, the City relied primarily on the site-by-site negotiated process. More recently, in order to speed up the approvals process and make CACs more predictable for developers, the City is making increased use of neighbourhood-specific target CAC rates for smaller developments and using site-by-site negotiations for large, complex rezonings.

This trend toward using defined target rates for a large proportion of rezonings is consistent with the recommendations in the Province's guide, which states that target rates for CACs "…have the advantage of being relatively predictable" and "…provide consistency and a sense of fairness".[4]

The City's target rates vary because of wide variation in local amenity needs and local market conditions. In setting the target rates, the City first considers the cost of new amenities and services required because of the new development. Then the City evaluates the economics of redevelopment to determine whether the required public benefits can be delivered without impeding the viability or pace of redevelopment activity.

[4] "Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability", Ministry of Community, Sport, and Cultural Development, March 2014, page 18.

6.0 CAC Policy and Housing Affordability: Examining the Record

6.1 Approach

Based on the analysis of how CACs could affect the pace of development and therefore put upward pressure on housing prices, we now look at some development and price statistics to see if there is any evidence that CACs have had a significant negative impact on housing prices in the City of Vancouver.

We look at the following indicators:

- We examine trends in apartment prices in the City and compare with trends in other parts of Metro Vancouver.
- We review the actual pace of residential development activity and rezoning activity in the City of Vancouver. We only look at apartments because they represent the bulk of the new residential activity in the already-urbanized part of the region and because most rezonings (that pay CACs) mainly involve new capacity for apartment units. The City of Vancouver has little opportunity to increase the supply of single detached units and, in any case, no CAC is sought from single detached homes.
- We examine the capacity for future apartment development in the City to see if there is any evidence that there is a constraint on the market's ability to deliver new product.
- We compare CACs with land values.

6.2 Trends in Housing Prices

In an evaluation of CACs and housing affordability in Vancouver, it is necessary to distinguish between single detached and apartment housing for two main reasons:

- The City has no physical capacity to create new single detached lots. In fact, the supply of lots is decreasing over the long term, as areas are rezoned to allow higher density housing.
- CACs are not sought from single detached units, even if new lots could be created.

Single detached unit prices have been rising much faster in Vancouver than apartment prices, which is empirical evidence of a basic rule of microeconomics: growing demand and constant (or shrinking) supply result in rising price.

It is interesting to compare trends in single family and apartment prices. The best publicly available, comprehensive, and reliable indicator of long term price trends is the MLS Home Price Index provided by the Real Estate Board of Greater Vancouver. This data source monitors the price of a deemed typical single detached unit and apartment unit over time in most communities in Metro Vancouver and shows the price trend in the form of an index. The index starts at 100 in 2005.

Exhibits 3A and 3B show the index for the period 2005 to 2014, for single detached and apartment units respectively.

Comparing the two exhibits, we can make these observations:

- During 2005 to 2014 overall regional average single detached prices increased by 72% compared to 50% for apartment prices.
- Prices in the City of Vancouver increased more than the regional average, for detached units and apartment units. Prices increased significantly more for single detached units than for multifamily units, even though new single detached units do not provide CACs. This supports the view that housing price escalation is being caused by factors other than CAC policy.
- Apartment prices also grew faster than the regional average in New Westminster and parts of Burnaby (which generally speaking have lower CACs than the City of Vancouver).

Exhibit 3A: Home Price Index (HPI) for Detached Homes in Greater Vancouver, 2005 to 2014

	Jan-05	May-05	Jan-06	Jan-07	Jan-08	Jan-09	Jan-10	Jan-11	Jan-12	Jan-13	Jan-14
Greater Vancouver	100	102.4	112.4	127.6	143.1	128.8	154.2	155.3	171.9	166.5	171.8
Bowen Island	100	104.3	113.2	125.3	136.4	121.3	134.9	120.5	122.1	124.2	122.1
Burnaby East	100	103.9	114	126.6	141.4	125.6	149.9	148	162.9	157.7	166.5
Burnaby North	100	102.3	112	127.4	144.5	129.3	154.4	157.1	176.2	172.5	178.9
Burnaby South	100	102.6	114.5	127.7	140.5	128.9	156	158.4	180.8	176.7	186.1
Coquitlam	100	102.1	111.3	127.4	139.6	128.7	144.4	142.3	150.6	154.2	160.5
Ladner	100	101.6	111.6	124.1	136.3	129.1	144.4	139.3	147.3	146.3	144.4
Maple Ridge	100	101.1	108.4	124.3	136.1	122.8	133.4	128	131.2	130.7	129.6
New Westminster	100	103.5	113.3	126.8	140.8	127.8	151.3	151.7	164	157.5	163.1
North Vancouver	100	103.2	111	121.7	139.2	121.3	141.7	134.8	150.3	146.5	151.4
Pitt Meadows	100	101.7	109.4	127.3	138.2	123.4	140.7	132.8	141.2	138.6	138.6
Port Coquitlam	100	101.7	111.6	126.5	139.4	126.3	142.3	137.6	145.4	145.8	149.9
Port Moody	100	101.8	112.7	127.9	141.3	129.6	144	142.8	146.6	150	158.8
Richmond	100	102.3	113.6	130	145.2	136.9	173	186.7	200.6	187.9	187.5
Squamish	100	104.9	109.7	119.3	133	123.7	129.9	122	136.6	131	134.2
Sunshine Coast	100	103.6	114.9	127.8	137.4	124.6	135.7	122.1	125.8	124	117.6
Tsawwassen	100	103.7	113.6	126.2	139.9	123.3	146.5	132.9	147.8	149.9	151.8
Vancouver East	100	102.3	113.7	129.2	143.9	131.4	158.9	161.6	181.8	180.9	191.9
Vancouver West	100	101.9	113.3	132.6	158.9	136.4	182.2	188.6	221.6	205	220.3
West Vancouver	100	103.5	113.3	127.5	146.8	120.2	145	145	170.4	172.8	180.4

Source: MLS Home Price Index, Real Estate Board of Greater Vancouver.

Exhibit 3B: Home Price Index (HPI) for Apartments in Greater Vancouver, 2005 to 2014

	Jan-05	May-05	Jan-06	Jan-07	Jan-08	Jan-09	Jan-10	Jan-11	Jan-12	Jan-13	Jan-14
Greater Vancouver	100	103.9	115.7	132.6	148.7	132.2	148.2	145.8	149.3	144.9	150.2
Burnaby East	100	103.9	118.2	142	158.8	137.7	152.7	138.9	136.7	139.9	149.7
Burnaby North	100	102.8	113.7	131.6	145.4	129.1	144.8	139.9	139.6	138.6	141.5
Burnaby South	100	103.4	114.8	130.1	145.8	133.6	148.2	150.6	150.3	146.3	154.9
Coquitlam	100	102.9	113.7	133.2	148.6	128.8	142.5	141	137.8	135.8	142.2
Ladner	100	100.2	111.9	126.9	138.7	137	139.1	142.6	147.3	145	143.9
Maple Ridge	100	102.1	112.5	137.9	150.3	132.2	135.1	137.9	132.6	129.9	132.2
New Westminster	100	103.6	116.4	138.9	153.5	139.1	149	148	151.6	150.9	156.5
North Vancouver	100	102.5	112.8	126.7	143.4	124.2	140.1	138.4	138.1	138.4	143.3
Pitt Meadows	100	102.1	112.5	137.9	150.3	132.2	134.4	134.7	128.2	138.4	152.6
Port Coquitlam	100	102.6	114.2	137.2	152.8	138.3	145.6	138.5	137.9	131.1	130.6
Port Moody	100	102.6	117.8	128	140.2	126.6	135.8	129	125.8	128.1	133.1
Richmond	100	103.2	114.4	130.6	145.3	131.1	150.6	143.7	149.7	141.9	145.9
Squamish	100	100	107.4	113.4	136.3	138.9	119.1	128.3	108	109.3	107.2
Tsawwassen	100	100.2	111.9	126.9	138.7	137	139.1	137.3	138.3	138.2	134.3
Vancouver East	100	103.6	118.9	139.4	159.2	145.5	161.7	159.1	163.3	165.2	170.1
Vancouver West	100	105.6	117.2	131.8	148.7	129.4	149.7	147	154	148.9	156.1
West Vancouver	100	101.8	111.4	129.5	146.7	123	134.1	132.4	131.8	133	129.1

Source: MLS Home Price Index, Real Estate Board of Greater Vancouver.

Clearly the City of Vancouver has experienced significant apartment price increases, which explains the concern about housing affordability and the questions about CAC policy, but apartment prices did not rise as fast as single detached prices. Next, we look at indicators of whether price pressure on apartments can be linked to CACs.

6.3 The Pace of Development Activity and Rezonings

In this section we examine the pace of apartment development activity and rezoning activity in the City. We also compare the pace of development in Vancouver with the rest of the urban region.

Exhibit 4A shows the total number of new apartment units constructed in the City of Vancouver and the other municipalities in the Vancouver Census Metropolitan Area (CMA) during 1988 to 2013. Attachment 1 contains the detailed annual data which is summarized in Exhibit 4A.

Exhibit 4A shows that:

- Over the 25 year period from 1988 to 2013 the City had just under 40% of all apartment unit construction in the region.
- The pace of development in the City averaged just over 3,200 units per year, more than any other municipality. The next highest average pace of development was in Surrey and Burnaby, which *combined* achieved about 1,700 units per year (i.e. just over half the City's pace of development).

If development policy in the City (including CACs) has put downward pressure on the pace of development, the implication is that the City "should" have accommodated even more than 40% of all new apartment units in the region, which seems unlikely considering there is competition from a large number of high density, transit-oriented neighbourhoods under development across the region.

Exhibit 4A: Apartment Starts by Municipality in the Vancouver Census Metropolitan Area (CMA), 1988 to 2013

	1988-2013	Annual Average 1988-2013
BOWEN ISLAND	24	1
BURNABY	22,006	846
COQUITLAM	12,924	497
DELTA	2,749	106
LANGLEY CITY	4,616	178
LANGLEY DISTRICT	4,629	178
MAPLE RIDGE	3,241	125
METRO INDIAN RESERVES	103	4
NEW WESTMINSTER	9,441	363
NORTH VANCOUVER CITY	6,348	244
NORTH VANCOUVER DISTRICT	3,646	140
PITT MEADOWS	1,625	63
PORT COQUITLAM	4,951	190
PORT MOODY	3,925	151
RICHMOND	19,376	745
SURREY	22,318	858
U.E.L.	3,261	125
VANCOUVER	83,377	3,207
WEST VANCOUVER	1,488	57
WHITE ROCK	2,487	96
OTHER AREAS	1,652	64
VANCOUVER CMA TOTAL	214,187	8,238
Rest of CMA (Excl. Vancouver)	130,810	5,031

Source: Data provided by the Vancouver Office of CMHC on May 6th, 2014.

Exhibit 4B uses the same data on housing starts to look at the City's share of development activity over time.

Exhibit 4B: City of Vancouver Share of CMA Apartment Starts

	1998-2013	2004-2013	2009-2013	2012-2013
City of Vancouver	51,009	32,741	15,635	8,898
Vancouver CMA	134,293	102,006	46,800	24,586
City of Vancouver Share of CMA	38%	32%	33%	36%

Source: CMHC.

Exhibit 4B shows that:

- Since the late 1990s, by which time the City's CAC policies had become formalized along the lines they exist today, the City has captured 38% of all apartment activity in the region.
- During the most recent decade (2004 to 2013) the share fell to 32% but is increasing again (33% over the last 5 years and 36% over the last 2 years).

These shares are bound to fluctuate depending on many factors including rapid transit development (which creates new development nodes at station locations), municipal plans throughout the region, and market interest. The key point to take from these figures is that the City of Vancouver has sustained a very high share of regional apartment activity during a time when the City has had a CAC policy that could be considered more aggressive than most other municipalities in the region. Considering that the number of attractive, competitive locations for high density development in the region has been increasing (due to rapid transit development and community planning initiatives), in our view it is difficult to see how CACs could be described as having acted to significantly constrain the pace of development in the City.

Exhibit 5 shows the split between new apartment development that has occurred in the City on already-zoned land (meaning no CAC) versus new apartment development that has required rezoning (which typically involves a CAC) over the last decade. As shown, the split is about 46% zoned and 54% rezoned. Not all rezonings pay CACs (e.g. non-market housing does not pay CACs and market rental projects have not generally paid CACs to date), so it is reasonable to conclude that approximately 50% of all new units pay no CAC.

Exhibit 5: Multi-family Unit Completions at Zoned Sites and Rezoned Sites

	C Districts	DD Districts	RM Districts	Other Zoning Districts	Total on Already Zoned Sites	Total on Rezoned Sites	Total
2004	597	636	161	22	1,416	1,431	2,847
2005	640	777	74	232	1,723	2,976	4,699
2006	510	1,070	197	281	2,058	1,710	3,768
2007	458	640	185	128	1,411	2,803	4,214
2008	638	1,106	297	193	2,234	1,555	3,789
2009	705	881	182	342	2,110	1,533	3,643
2010	280	414	140	254	1,088	2,214	3,302
2011	865	1,038	108	364	2,375	589	2,964
2012	708	45	125	123	1,001	1,483	2,484
2013	641	110	38	52	841	2,423	3,264
Total 2004 to 2013	6,042	6,717	1,507	1,991	16,257 (46%)	18,717 (54%)	34,974
Average Annual 2004 to 2013	604	672	151	199	1,626	1,872	3,497

Source: City of Vancouver.

Exhibit 6 shows the pace at which the City of Vancouver has rezoned property to create new capacity for apartment development during the last 5 years. As shown, rezoning activity (as measured in net capacity for new units) has added room for 15,137 units, at an average pace of about 2,900 units per year. Comparing Exhibits 5 and 6, two important observations can be made:

- The pace of rezoning is maintaining the City's total capacity for development: over 2009 to 2013, new unit completions totaled 15,657 units and rezoning added 15,137 units of redevelopment capacity.
- Half of all new units paid no CAC.

- During 2009 to 2013, rezonings added capacity for over 15,000 units, but only 8,200 units were built on rezoned land. The pace of rezoning is not constraining the pace of development.

The City's rezoning "output" is keeping up with the recent total pace of development. This pace of rezoning activity is also, by definition, an indicator of the overall rate at which landowners are willing to put their sites into the development market even though CACs are capturing some of land value gain from rezoning.

Exhibit 6: New Market Residential Capacity Created from Rezonings from January 2009 to April 1, 2014

Area	Net Additional Sq. Ft. Approved	Estimated Net Additional Units
Cambie Corridor	2,255,616	2,469
Oakridge Centre	3,704,532	2,914
Downtown	3,081,972	4,319
Downtown Eastside	176,000	626
Marpole	88,972	148
SEFC/Mount Pleasant	777,743	1,024
Norquay	182,689	304
West End	288,932	420
Rest of City Area Rezonings	2,077,118	2,912
Total Net Additional	12,633,574	15,137

Source: City of Vancouver.

Exhibit 7 shows a survey of the amount of high density residential development activity coming on line in the region over the next few years. The exhibit shows the number of apartment units in projects over 6 storeys that were actively under development (meaning under construction or recently completed and selling units) as of September 2013. Exhibit 8 shows the additional high density apartment projects that were in the approvals process (i.e. seeking permits or rezoning) as of September 2013.

Exhibit 7: Active High Density Residential Projects and Developers in Greater Vancouver (September 2013)

Municipality	High Density Residential Projects	% Share of Projects	Developers
Vancouver	52	35%	29
Burnaby	21	14%	12
Richmond	21	14%	18
Coquitlam	13	9%	7
Surrey	11	7%	8
New Westminster	11	7%	10
North Vancouver City	6	4%	4
Port Moody	4	3%	2
UBC-UEL	3	2%	3
White Rock	3	2%	3
Port Coquitlam	2	1%	1
North Vancouver District	1	-	1
Delta	1	-	1
Pitt Meadows	1	-	1
Total	150	100%	65

Source: Assembled using data from MPC Intelligence's The Trac, and information on each developer's website. The information was collected by Coriolis Consulting September 13, 2013.

Exhibit 8: High Density Residential Projects and Developers in the Approvals Process by Municipality in Greater Vancouver (September 2013)

Municipality	High Density Residential Projects	% Share of Projects	Developers
Vancouver	17	23%	13
Surrey	16	21%	11
Burnaby	12	16%	9
Richmond	8	11%	6
Coquitlam	5	7%	2
Port Moody	5	7%	5
North Vancouver City	4	5%	4
North Vancouver District	3	4%	3
Maple Ridge	3	4%	2
White Rock	1	1%	1
Delta	1	1%	1
Total	75	100%	37

Source: Assembled using data from MPC Intelligence's The Trac. The information was collected by Coriolis Consulting on September 17, 2013.

Looking at Exhibit 7, the City of Vancouver has 52 projects that are active, by 29 different developers. This is just over one third of all active projects in the region. Exhibit 8 shows another 17 projects in the approvals process, about 23% of the total. The City of Vancouver continues to attract more development interest than any other municipality, although the trend in regional development activity is toward wider geographic distribution, particularly to communities with existing or planned rapid transit service.

While there is no reliable way to estimate how much more development (if any) might have occurred in the City under a different policy context, it is very clear that the City has consistently absorbed a very large share of regional apartment development, has received and approved applications for rezoning that are sufficient to keep pace with recent rates of development, and has more development in the pipeline than any other community in the region. In light of these trends, we do not see evidence that CAC policy has tended to constrain the pace of new multifamily development in Vancouver.

The City has consistently absorbed a very large share of regional apartment development, has received and approved applications for rezoning that are sufficient to keep pace with recent rates of development, and has more development in the pipeline than any other community in the region. In light of these trends, it seems difficult to conclude that CAC policy has constrained the pace of new multifamily development in Vancouver.

6.4 The Capacity for Future Development

The next indicator we examine is the City's future ability to continue to accommodate multifamily residential development. Exhibit 9 shows how much remaining apartment capacity (measured in numbers of units) exists under current zoning and development policy in the City, based on estimates of redevelopment that could occur by 2041. There is additional capacity beyond 2041. More detailed information is provided in Attachment 2.

There is room for 25,700 units on lands that are already zoned for multifamily and for which no CAC is required. In addition, rezonings over the last 5 years have added capacity for about 15,137 units, of which very little has to date been completed. Combined, this totals almost 41,000 units. At the recent pace of development of say 3,500 units per year, this zoned capacity represents about 11+ years worth of new development. The exhibit also shows capacity, as estimated by the City, in Official Plans and Community Plans for another 35,420 units. While some of these will require rezoning (and CACs) there is little rezoning approval risk associated with this capacity.

Taken together, these figures indicate that the City has existing or planned capacity for enough new multifamily development to last for 20 years at the recent pace of development, although it is likely that some of this capacity is in locations that are not (at least currently) attractive to the market. Keeping in mind that the City regulates land use and development but does not have a quota on how many units get approved in any year, if the development industry sees an opportunity to accelerate the pace of development there is capacity to do so.

Exhibit 9: Remaining Development Potential by Type of Capacity in the City of Vancouver (to 2041)

	Units
Capacity in Existing Multifamily Zoning Districts	25,700
Capacity in Recently Approved CD-1 Districts (approved since 2009)	15,137
Capacity in ODPs, Community Plan Areas, and Policy Statement Areas	35,420
Total	76,257

Source: City of Vancouver.

Given the large development capacity of already-zoned lands and the large capacity that has been created by rezonings (notwithstanding that most of these rezonings have involved providing CACs), it seems clear that CAC policy is not acting to constrain the pace of multifamily residential development.

6.5 CACs and Land Values

One way to look at CACs, which are always associated with new development entitlements approved by rezoning, is that they are similar in financial terms to paying for a development site. When a developer buys land, the real objective is to buy the development opportunity (i.e. the density) conferred by the zoning on the property. Obtaining new density in exchange for providing CACs, therefore, is similar in some ways to obtaining density by buying land.

If a developer can obtain density by rezoning and can thereby acquire development entitlements for a lower cost than the prevailing price of land (as measured in dollars per square foot of developable density), then the economics of new development can be attractive.

Therefore, it is useful to review the City's CAC policy from a land value perspective:

- For large sites or complex rezonings, the City negotiates CACs on a site-by-site basis. These projects tend to have larger impacts on local neighbourhoods and City services and they sometimes involve the creation of new communities in locations with few existing amenities. For these rezonings, the City considers the full list of potential needs for public benefits, evaluates development risks, considers the economic viability of development, and works with the developer to agree on a package of CACs. The cost of these CACs typically works out to the equivalent of 70% to 80% of the value of the increased density. These rezonings tend to involve large sites where the land owner is the developer or is a large industrial user leaving the site, so the City's CAC target (a) creates little or no risk that the CAC would cause the site to remain in present use and (b) is set at a level that leaves incentive for developers and land owners to proceed with rezoning.
- In areas where the City has set defined target rates for CACs, these targets are set after careful consideration of neighbourhood impacts and needs, development economics, and the scale of new development projects. These area-wide targets must apply to a wide variety of sites with a wide range in financial performance, so it is necessary that the target rate be workable in almost all cases. Based on these factors, the target rates result in CACs that are less than the full value of the increased density, in order to create the possibility of a win-win-win: the City and community obtain public benefits, the developer has an opportunity for a larger project, and some of the rezoning value accrues to land to provide owners with an incentive to sell. These defined targets also have the advantage to developers of being predictable and widely known in the market place. The success of this defined target approach is illustrated by development in the Cambie Corridor. The target CAC is $55 per square foot of additional density. Since the Cambie Corridor Plan was adopted in May 2011, the City has approved 17 rezonings (with a total of 2,700 units), there are 9 additional projects (1,100 units) in the approvals process, and there are 10 additional projects (700 units) at the preliminary enquiry stage. This pace of development suggests that the CAC has not been an impediment.

Broadly speaking, it costs less for developers to obtain new density via rezoning than to buy a similar bundle of development entitlements in the form of land that is already zoned. In other words, it is theoretically possible to deliver a unit, on a rezoned site paying a CAC, at a lower cost than in a non-rezoned project. Of course, developers sell units at market price and developers must pay a price to land owners that gives an incentive to sell, so any land value gain from rezoning not taken up by CACs goes mainly to the land owner and to a lesser extent to developer cost recovery or extra developer profit, not to lower housing sales prices. But the point is that rezoning and favourable CAC policy are making

The CAC has generally been at a level that leaves considerable financial room for land owners to obtain a significant premium over the market value (under existing zoning) of their properties and leaves developers room to pay a premium for property assembly.

new development capacity available at a cost that is similar to or less than the value of the capacity on already-zoned sites.

The Province's guideline suggests that CAC targets should be "...modest to minimize the impact on housing affordability".[5] "Modest" is not defined and is a word that could mean very different things in different market contexts. More helpfully, the guide also suggests that the contributions should "strike a balance between ensuring new development contributes to a community while minimizing the risk that these contributions hurt housing affordability."[6]

The dollar value of CACs in the City of Vancouver may not strike some people as a "modest" number, when compared with other housing markets in the Province. In a Vancouver context, however, the CAC has generally been at a level that leaves financial room for land owners to receive a premium over the market value (under existing zoning) of their properties and leaves developers room to pay a premium for property assembly and/or to retain some of the land value gain as compensation for the cost and risk of rezoning.

6.6 Implications

Multifamily prices are high in Vancouver and are clearly rising, faster than in most parts of the region. Based on our review, CACs are not the cause. The pace of new development, the pace of rezonings, the total zoned capacity for new development, and the dollar amount of CACs relative to land values all show that the City is absorbing a high share of regional growth, rezoning land to keep pace with development, and obtaining CACs that are creating amenities while leaving sufficient incentive for many land owners to put their land in the redevelopment marketplace.

So why are prices rising even with such strong growth in supply? And if CACs are not the culprit, what is?

In our view, multifamily housing prices in Vancouver continue to rise for these reasons:

- The City is an extraordinarily attractive place in the world to live and invest. As has been documented in many reports, surveys, and media articles, Vancouver is very highly rated as a place to live and it has become part of a global real estate market.
- The demand for multifamily residential real estate includes local households wanting affordable homes, but it also includes investors from across the country and around the world, local investors, and affluent local home buyers who have accumulated large amounts of equity from their prior investment in local (often single detached) real estate. It seems to us that this continuing strong, broad appeal is evidenced by the difference between the comparatively short and shallow price impact of the 2008 financial crisis in this region compared to many North American real estate markets. This is not to say that there is no

[5] "Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability", Ministry of Community, Sport, and Cultural Development, March 2014, page 18.

[6] "Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability", Ministry of Community, Sport, and Cultural Development, March 2014, page 18.

risk of market collapse (as anyone who remembers 1981 well knows), but that this market has become more resilient than many.

- Demand from local households has been strengthened by a long period of very low interest rates and by increases in purchasing power due to family wealth transfers to help young households get into the market.
- The private and public sectors continue to make the region even more attractive by improving transportation infrastructure, developing new high quality neighbourhoods, and promoting the region.
- The region has a limited urban land base so competition for land is strong among residential, commercial, industrial, and institutional uses.
- Increasing transportation costs and travel times are leading some households to put more of a premium on living in the core of the region, which puts pressure on prices in the City.
- The pace of new housing supply that would be needed to cause prices to plateau or fall in the face of ongoing strong demand may be too much for the development industry or existing communities in Vancouver to comfortably absorb. While it is possible that the overall length and complexity of the development approvals process causes the creation of new supply to take longer than it should, the record over the last decade shows that the rate of rezonings coming out of the process is high. Total capacity for future development is being sustained, so the problem may be a limit on the total amount of development the industry is able to deliver.

Basic microeconomics tells us that an even more rapid pace of apartment construction in the City should ameliorate the rate of housing price growth. It is theoretically possible that under different policy the pace of development in the City might be higher, but with a share of over one third of regional apartment unit construction it is difficult to see how the pace might be increased materially. It is important to note that there is sufficient zoned capacity in the City that if the development industry saw an opportunity to accelerate the pace of development, it would already be possible because of the large already-zoned capacity for apartment development. If there is a constraint on the rate of new development, in our view it is due to factors other than CAC policy, such as land use policy which (for good reasons) retains a large share of the City's land base in industrial, office, institutional, recreational, and low density residential use; community concerns about (or opposition to) changes in use and density; and the capacity of the local industry to deliver product.

We also note that CAC policy, when carefully fashioned and efficiently implemented, can have beneficial effects on housing affordability:

There is no question that housing prices are high and rising in Vancouver. In our view, the empirical evidence indicates that CACs are not the cause and may in fact be part of the solution.

- If one accepts the premise that in the absence of community benefits the pace of rezoning would be slower because of community opposition, then CACs are an important element of enabling growth in housing capacity.
- If one accepts the premise that amenities and infrastructure created by CACs would otherwise have to be funded out of property tax increases (which affect affordability for all residents and businesses), then CACs benefit all taxpayers by channeling a portion of the land value gain due to rezoning

away from a few beneficiaries (land owners) to the broader community.

- In some cases, a portion of the CAC takes the form of affordable housing units, such as market rental.

There is no question that housing prices are high and rising in Vancouver. In our view, the empirical evidence indicates that CACs are not the cause and may in fact be part of the solution.

7.0 Conclusion

The purpose of this review is to see if the City of Vancouver's CAC policy has put upward pressure on housing prices. We see no evidence that this has been the case; to the contrary, CACs have been associated with a very large increase in the City's capacity to absorb new apartment development and in some cases have been used to achieve the creation of affordable housing units that would not otherwise have been built.

There are circumstances under which a local government's CAC policy could have negative impacts on housing affordability. If the expectation of community benefit is so high that existing land owners have insufficient incentive to sell their land into the development market or developers are unable to achieve reasonable profit margins, there is a risk that the amount of land available for new development is reduced. In a region like Metro Vancouver, with very high residential demand and constrained land supply, any new restrictions on the flow of land into the redevelopment market or reductions in the pace of new development would cause housing prices to rise. However, CACs are associated with rezonings, which increase the capacity to absorb new development and generate new land value that can be allocated among land owners, developers, and local government. Properly implemented, a CAC policy can produce positive outcomes for all stakeholders: land owners have an incentive to sell land into the development market, developers find new projects sufficiently rewarding, the community enjoys new amenities and services, and the addition of new housing supply provides more housing choice and to some extent limits price increases.

Vancouver continues to absorb a very large share of regional development, the City approves rezonings at a pace that does not appear to constrain development at least on a city-wide scale, and there is zoned development capacity that would allow development to occur more quickly if the industry saw an opportunity. There are factors pushing up housing prices in Vancouver, on the demand side and the supply side, but CACs are not one of them.

Housing prices have clearly increased significantly in the City and the region as a whole. Having reviewed the pace of development in the City, the rate at which the City approves new zoning capacity, the amount of development in the pipeline, and the available capacity for new development in the City, we see no compelling evidence that CACs have put upward pressure on housing prices in Vancouver. Vancouver continues to absorb a very large share of regional development, the City approves rezonings at a pace that does not appear to constrain development at least on a city-wide scale, and there is zoned development capacity that could allow development to occur more quickly. There are factors pushing up housing prices in Vancouver, on the demand side and the supply side, but CACs are not one of them.

The record suggests that the City's CAC policy is achieving a balance between obtaining community amenities and a growing supply of housing. It may be the case that an even more rapid pace of development is needed to moderate housing price increases, but it is not the City's CAC policy that is impeding the pace of new construction or putting pressure on prices.

The City's approach to CACs is, in several key respects, consistent with the suggestions in the Provincial guide:

- The City has significantly increased the capacity for new housing.
- The City has balanced community amenity, the pace of development, and housing affordability.
- The City is increasing the use of specified target CAC rates to increase transparency and predictability.
- The City's approach is different in different areas and circumstances, reflecting local needs, local impacts, and local market conditions. Public benefit needs are assessed on a neighbourhood basis as part of the creation of new community plans and the City takes local market conditions into account when establishing targets for CACs.

As with all policies and procedures, the City's CAC system could be improved, but in principle it is working well to obtain public benefits while increasing housing supply; it is not causing housing prices to rise.

8.0 Attachments

Attachment 1: Apartment Starts by Municipality in the Vancouver Census Metropolitan Area (CMA), 1988 to 2013

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	1988-2013	Annual Average 1988-2013
BOWEN ISLAND	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	4	2	6	6	4	1	24	1
BURNABY	163	1,075	781	648	801	643	651	498	389	612	901	231	166	517	329	510	1,562	2,304	890	1,891	1,110	559	808	1,047	1,093	1,827	22,006	846
COQUITLAM	75	554	557	332	673	813	721	303	248	657	106	160	172	136	166	268	351	204	889	472	1,155	144	750	817	1,341	860	12,924	497
DELTA	31	189	413	97	128	178	214	162	213	13	46	13	0	45	263	26	52	45	50	2	13	60	118	151	164	63	2,749	106
LANGLEY CITY	173	367	258	187	199	418	616	154	156	183	80	0	233	54	100	0	119	169	297	125	118	160	167	220	63	0	4,616	178
LANGLEY DISTRICT	16	78	103	26	73	300	24	58	245	295	47	0	14	0	144	128	110	42	3	216	446	260	296	716	588	401	4,629	178
MAPLE RIDGE	23	208	251	113	283	118	176	119	12	134	230	12	50	101	0	0	87	80	436	254	45	2	21	81	308	97	3,241	125
METRO INDIAN RESERVES	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	103	0	0	103	4
NEW WESTMINSTER	303	947	495	259	493	213	608	394	163	365	286	94	87	83	192	453	192	546	735	628	422	158	129	266	734	196	9,441	363
NORTH VANCOUVER CITY	37	222	200	39	51	131	200	176	311	243	254	258	205	119	16	555	252	232	346	657	300	12	226	412	427	467	6,348	244
NORTH VANCOUVER DISTRICT	156	99	212	289	131	10	273	65	246	106	167	60	0	250	201	100	86	0	46	0	167	47	149	335	191	260	3,646	140
PITT MEADOWS	0	0	172	84	124	101	127	52	63	0	70	0	0	0	0	0	0	0	353	70	144	0	0	71	68	126	1,625	63
PORT COQUITLAM	98	0	120	164	130	687	494	347	96	91	26	122	31	105	4	139	85	313	199	740	125	24	349	38	241	183	4,951	190
PORT MOODY	0	10	2	0	18	60	11	380	0	294	87	0	33	20	200	196	258	511	364	837	353	0	0	0	291	0	3,925	151
RICHMOND	371	990	760	383	509	534	686	678	1,227	156	473	202	120	118	799	619	649	930	1,132	1,413	1,399	343	845	1,930	1,235	875	19,376	745
SURREY	219	566	854	507	992	2,081	1,354	732	1,011	539	177	33	92	284	201	346	638	660	1,021	2,025	3,109	371	742	1,591	984	1,189	22,318	858
U.E.L.	0	0	0	2	0	0	2	0	0	0	0	0	0	36	0	198	423	419	326	272	257	137	230	351	95	513	3,261	125
VANCOUVER	1,348	2,587	2,552	2,337	2,823	4,195	4,395	3,798	3,400	4,933	3,399	2,591	2,039	3,698	3,081	3,460	4,497	3,217	2,404	3,301	3,687	1,048	3,033	2,656	4,368	4,530	83,377	3,207
WEST VANCOUVER	28	54	112	266	56	44	53	25	21	0	36	0	0	0	0	96	37	207	9	8	33	0	0	0	310	93	1,488	57
WHITE ROCK	79	140	158	158	107	151	29	136	34	6	80	0	28	0	60	64	110	104	63	301	52	98	77	52	272	128	2,487	96
OTHER AREAS	0	0	0	28	178	768	0	133	137	112	123	0	173	0	0	0	0	0	0	0	0	0	0	0	0	0	1,652	64
VANCOUVER CMA TOTAL	3,120	8,086	8,000	5,919	7,769	11,445	10,634	8,210	7,972	8,739	6,588	3,776	3,443	5,566	5,756	7,158	9,508	9,984	9,563	13,212	12,939	3,425	7,946	10,843	12,777	11,809	214,187	8,238
Rest of CMA (Excl. Vancouver)	1,772	5,499	5,448	3,582	4,946	7,250	6,239	4,412	4,572	3,806	3,189	1,185	1,404	1,868	2,675	3,698	5,011	6,767	7,159	9,911	9,252	2,377	4,913	8,187	8,409	7,279	130,810	5,031

Source: Data provided by the Vancouver Office of CMHC on May 6th, 2014.

Attachment 2: Remaining Development Potential in Existing Multifamily Zoning Districts
Anticipated Capacity for Residential Units to 2041 of Lands Already Zoned for Multifamily Residential Use

Zone	Units	%
C-Districts	12,200	47%
HA District	2,000	8%
RM Districts	900	4%
Other Districts (IC-3, MC-2, FC-1, FM-1, DD)	10,600	41%
Units Anticipated by 2041 in Existing Zoning Districts	25,700	100%

Source: City of Vancouver, 2014. Note that the City anticipates additional capacity beyond the year 2041 in these zones.