



POLICY REPORT

Report Date: July 16, 2018
Contact: Chris Robertson
Contact No.: 604.873.7684
RTS No.: 12692
VanRIMS No.: 08-2000-20
Meeting Date: July 24, 2018

TO: Vancouver City Council
FROM: General Manager of Planning, Urban Design and Sustainability
SUBJECT: 2018 Annual Inflationary Adjustments to Density Bonus Contributions

RECOMMENDATIONS

THAT the General Manager of Planning, Urban Design and Sustainability be instructed to make application to implement inflationary rate adjustments to the Density Bonus Contributions available in certain zoning districts by amending Schedule F of the Zoning and Development By-law, to increase the values of the affordable housing and the amenity shares to be effective September 30, 2018, as shown in Appendix A;

FURTHER THAT the application be referred to a public hearing;

AND FURTHER THAT the Director of Legal Services be instructed to prepare the amending by-law, generally in accordance with Appendix A, for consideration at the public hearing.

REPORT SUMMARY

This report seeks Council approval to adopt the 2018 annual inflationary adjustments to Density Bonus Contributions with new rates becoming effective September 30, 2018 (if approved at public hearing).

The annual inflationary adjustments to Development Cost Levies (DCLs) and Community Amenity Contribution (CAC) Targets are the subject of a separate report as they do not require zoning and development by-law amendments.

The 2018 inflationary adjustments represent an increase of 4.8%, reflecting annual increases in assessed property values and non-residential construction costs. The inflationary adjustments to Density Bonus Contributions allow the City to keep pace with annual changes in property

values and construction costs and help ensure the continued delivery of necessary growth-related amenities and infrastructure.

Recommendations in this report have been shared with development industry stakeholders (Urban Development Institute, National Association of Industrial and Office Properties, Greater Vancouver Homebuilders Association) and at the time of finalizing this report, no comments or concerns have been received.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

In June 2003, Council adopted the Financing Growth Policy that sets the framework for the collection and allocation of DCLs to help pay for eligible amenities and infrastructure needed for growth: parks, housing, childcare, and various engineering infrastructure.

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

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

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

In January 2016, Council approved Density Bonus Contributions in Norquay.

In May 2016, Council adopted the DCL annual inflationary rate adjustments system for Density Bonus Contributions and CAC Targets and directed staff to report back on a one-time catch-up for past inflation and the proposed new annual inflationary rates.

In September 2016, Council approved Density Bonus Contributions in Joyce-Collingwood.

In February 2017, Council approved Density Bonus Contributions in the Mount Pleasant Industrial Area.

In May 2016, Council adopted the DCL annual inflationary rate adjustments system for Density Bonus Contributions and CAC Targets and directed staff to report back on a one-time catch-up for past inflation and the proposed new annual inflationary rates.

In September 2017, Council adopted a formula and new process for updating the density bonus contribution rates.

In October 2017, Council approved Density Bonus Contributions in False Creek Flats.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

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

REPORT

Background/Context

Annual inflationary adjustments to DCLs, Density Bonus Contributions, and CAC Targets form an integral part of Vancouver's development contribution system. These adjustments help the City maintain its purchasing power from year-to-year so that it may deliver necessary growth-related amenities and infrastructure. This report outlines the 2018 inflationary adjustments to Density Bonus Contributions. The annual inflationary adjustments to DCLs and CAC Targets are the subject of a separate report.

The annual rate adjustment is initiated with reports to Council in either June or July proposing new DCL, Density Bonus Contribution, and CAC Target rates adjusted for inflation. If approved, these new rates come into effect annually on September 30th. The annual system draws from local and national best practices by using publicly accessible third party data and providing transparent and accessible calculations. It also considers changing market conditions through a review of local economic indicators so that rates do not get ahead of inflationary trends. The system uses an annual inflation index based on property value and construction cost inflation to establish the rate. Linking rates to an annual inflationary index results in rate increases when inflation is positive and rate decreases when inflation is negative. This system has provided more predictability to both the development industry and the City, and has been broadly supported by industry stakeholders.

Annual inflationary adjustments were initially adopted for DCLs in October 2009 and implemented in 2010 for all DCL districts in the city. Council has approved inflationary adjustments with average rate increases of approximately 5% between 2010 and 2017 (see Table 1).

Vancouver's development contribution system has expanded to include Density Bonus Contributions and CAC Targets as new area plans were approved by Council over the years. These approaches help simplify Vancouver's development contribution system by enhancing certainty and transparency. As a result, the number of projects with negotiated CACs is declining and the number of projects utilizing Density Bonus Contributions and CAC Targets is increasing.

In May 2016, Council adopted the DCL inflationary rate adjustment system for Density Bonus Contributions and CAC Targets. As Density Bonus Contributions and CAC Targets had not been adjusted for inflation since they were established, Council also approved a one-time catch-up for past inflation as part of the new rate adjustments. In 2009, a similar one-time rate catch-up for DCLs was approved by Council when the inflationary adjustment system was first adopted.

Periodically, a recalibration of DCL, Density Bonus Contributions and CAC Targets will be required as public benefit strategies and Capital Plans are updated. This type of update includes a review of any potential impacts on development viability.

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

Recommended inflationary adjustments are presented in Appendix A. Descriptions of Density Bonusing are presented in Appendix B.

Strategic Analysis

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

Density Bonus Contributions were last adjusted under the annual inflationary rate adjustment system on September 30, 2017.

Vancouver's inflationary index blends third-party property inflation (BC Assessment property roll¹) and construction cost inflation (Statistics Canada Non-Residential Building Construction Price Index for Vancouver²) based on City costs for acquiring land and constructing public amenities and infrastructure. The current inflationary index blend is weighted 75% towards construction and 25% towards property, reflecting spending priorities in the current Capital Plan. The 2018 index shows a 5.1% increase in local assessed property values and a 4.7% increase in local non-residential construction costs. The overall 4.8% inflationary rate adjustment is the result of this blended calculation.

Table 1 shows the annual inflationary adjustments from 2010 to 2018. Overall inflation was negative in 2010, reflecting the global and local economic slowdown during this period. In 2011 and 2012, inflation rebounded to reflect increased property values and construction costs. Inflation was more modest in 2013 and 2014, reflecting a slower but steady rate of economic growth. Local construction activity has been brisk since 2015, which resulted in higher property and construction cost increase.

Table 1: Annual Inflationary Rate Adjustments

| Annual Rate Adjustment | | Data used to calculate index (for information only) | |
|------------------------|-------------------------------------|--------------------------------------------------------|-----------------------------------|
| Year | Annual Inflationary Rate Adjustment | Local Property Value Inflation | Local Construction Cost Inflation |
| 2010 | -1.4% | 1.5% | -6.8% |
| 2011 | 8.8% | 11.4% | 3.9% |
| 2012 | 10.3% | 13.7% | 4.2% |
| 2013 | 1.4% | 1.3% | 1.3% |
| 2014 | 1.6% | 0.8% | 3.0% |
| 2015 | 3.4% | 8.6% | 1.7% |
| 2016 | 4.6% | 16.5% | 0.6% |
| 2017 | 11.9% | 29.9% | 6.1% |
| 2018 | 4.8% | 5.1% | 4.7% |

Note: Vancouver's DCL rates have used this index to adjust rates since 2010. Density Bonus Contributions and CAC Targets have been adjusted since 2016.

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

¹ BC Assessment Property Roll for the City of Vancouver, 2018

² Statistics Canada Non-Residential Building Construction Price Index for Vancouver, 2018

Proposed Inflationary Adjustment to Density Bonus Contributions (2018)

The City currently has five density bonus areas: Marpole, Norquay, Joyce-Collingwood, Mount Pleasant Industrial Area, and False Creek Flats.

Below are the proposed inflation adjusted Density Bonus Contributions to take effect on September 30, 2018. Inflation adjustments are being recommended for Norquay, Joyce-Collingwood RM-9BN zone, and the Mount Pleasant Industrial area. No inflationary rate changes are proposed for False Creek Flats and the Joyce-Collingwood RM-10N zone because both were approved by Council after September 30, 2017.

At the time of writing this report, new density bonus areas are being proposed to be implemented or recalibrated as part of the Cambie Corridor Plan and Public Benefit Strategy. Those new and amended areas, which include two Marpole density bonus areas, are not included in Table 2 below.

Table 2: Inflation Adjusted Density Bonus Contributions
(\$/ft² on net additional density)

| Density Bonus Area | Year Established | 2017 Rate | Inflationary Adjustment (2017-2018) | Recommended 2018 Density Bonus Rate |
|----------------------------------------------------------|------------------|-------------------------|-------------------------------------|-------------------------------------|
| Mount Pleasant (I-1A, I-1B zones: 3.0 to 5.0 FSR) | 2017 | \$6.00/ft ² | +\$0.29/ft ² | \$6.29/ft² |
| Mount Pleasant (I-1B zone: 5.0 to 6.0 FSR) | 2017 | \$43.00/ft ² | +\$2.06/ft ² | \$45.06/ft² |
| Joyce-Collingwood (RM-9BN zone: 0.7 to 2.0 FSR) | 2016 | \$3.36/ft ² | +\$0.16/ft ² | \$3.52/ft² |
| Norquay (RM-9A and RM-9AN zones: 0.7 to 2.0 FSR) | 2013 | \$18.59/ft ² | +\$0.90/ft ² | \$19.49/ft² |

Implementation of inflation adjusted density bonus contributions requires amendments to Schedule F of the Zoning and Development By-law, which is subject to a public hearing that would take place before rate implementation on September 30th.

Economic Indicators & Development Viability

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

- The Conference Board of Canada is forecasting 2.9% growth in the Vancouver CMA Gross Domestic Product (GDP) for 2018³ - the second highest amongst all major Canadian metropolitan areas
- Employment is forecast to grow 1.6% and unemployment rate is forecast to be 4.3% in 2018³;
- According to City of Vancouver data, the value of year-to-date building permits issued (as of April 2018) is at a record high level and exceeds last year's value by 41.9%⁴;
- According to CMHC, year-to-date housing starts in the City (as of May 2018) have nearly doubled compared to 2017⁵; and
- The City has increased capacity for redevelopment through new community plans, new district schedules and rezonings.

These indicators suggest that the recommended inflationary adjustments for density bonus contributions for Vancouver are in-step with the overall direction of the economy and the real estate development industry in Vancouver.

In-Stream Rate Protection

For Density Bonus Contributions, the City provides in-stream rate protection for building permit applications that have been submitted prior to a rate change, provided that the application has been submitted in a form satisfactory to the City and an associated application fee has been paid.

Implications/Related Issues/Risk

Financial

Rate adjustments for Density Bonus Contributions have financial implications for the City and the development industry.

Financial Implications for the City

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

As per Council policy, the rates are adjusted annually to keep pace with local construction and property inflation and to preserve the City's ability to deliver much needed public amenities and

³ Conference Board of Canada, Metropolitan Outlook 1 – Spring 2018

⁴ City of Vancouver, Statement of Building Permits Issued, April 2018

<https://vancouver.ca/files/cov/statement-of-building-permits-issued-april-2018.pdf>

⁵ CMHC, Housing Information Portal, May 2018

<https://www.cmhc-schl.gc.ca/hmiportal>

infrastructure. Should Council approve the proposed rate adjustments, and assuming development activity remains steady, an additional \$0.1 million in Density Bonus Contributions could be secured once the inflationary rate adjustment takes effect.

Financial Implications for Development

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

The proposed rate adjustments for density bonus contributions represent a 4.8% increase, which is in line with current economic conditions and account for a relatively small percentage of overall development costs today.

Engagement and Communications Plan

Every year, the following steps are taken to ensure broad notification of proposed inflationary rate adjustment prior to consideration by Council:

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

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

CONCLUSION

This report seeks Council approval for an annual inflationary adjustment to Density Bonus Contributions with new rates to be effective September 30, 2018. This process, which has been ongoing since 2010, now synchronizes the inflationary rate adjustment of all development contributions and continues to align development contribution rates with local construction and property inflation. Annual rate adjustment maintains the purchasing power of growth-related development revenues so that civic facilities and infrastructure to serve new residents and workers can be provided.

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Schedule F
Affordable Housing and Amenity Share Cost Schedule

This is Schedule "F" to By-law No. 3575, being the "Zoning and Development By-law".

| Zoning District^a | Affordable Housing Share Cost | Amenity Share Cost |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RM-8 and RM-8/N (Marpole) | \$130.24 per m ² (0.75 to 1.2 FSR) | \$130.24 per m ² (0.75 to 1.2 FSR) |
| RM-9 and RM-9N (Marpole) | \$130.24 per m ² (to a maximum FSR of 1.20); and \$716.02 per m ² (for any increase in FSR above 1.20) | \$130.24 per m ² (to a maximum FSR of 1.20); and \$716.02 per m ² (for any increase in FSR above 1.20) |
| RM-9A and RM-9A/N (Norquay) | \$209.75 per m ² | \$209.75 per m ² |
| RM-9BN (Joyce-Collingwood Apartment) | \$37.86 per m ² | \$37.86 per m ² |
| RM-10 and RM-10N | \$161.46 per m ² | \$161.46 per m ² |
| I-1A (Mount Pleasant) | - | \$67.68 per m ² (to a max FSR of 5.0 above 3.0 FSR) |
| I-1B (Mount Pleasant) | - | Level 1 - \$67.68 per m ² (to a max FSR of 5.0 above 3.0 FSR) Level 2 - \$485.03 per m ² (to a max FSR of 6.0 above 5.0 FSR) |
| I-3 | | \$107.63 per m ² |
| FC-2 | | \$1291.67 per m ² |

In May 2016, Council adopted the DCL annual inflationary rate adjustment system for making annual adjustments to Amenity Share Contributions (Density Bonus Contributions). The annual inflation index is based on a blend of annual property value inflation (BC assessment net property values for the City of Vancouver) and annual construction cost inflation (Statistics Canada non-residential construction price index for Vancouver) and calculated using public, third-party data. The formula used to calculate the inflationary rate adjustment is as follows:

$$\text{ANNUAL INFLATION ADJUSTMENT OF AMENITY SHARE COST AND AFFORDABLE HOUSING SHARE COST} = (\text{ANNUAL CONSTRUCTION INFLATION} \times 0.75) + (\text{ANNUAL PROPERTY VALUE INFLATION} \times 0.25)$$

Rates are adjusted in accordance with this formula annually. The rate adjustment will be presented in a Report to Council every July, with new rates effective and enforceable on September 30 of every year. If a new zone has been added to this Schedule after September

30 of any year, those rates will not be subject to the inflationary adjustment formula until one year after the next September 30 adjustment.

To view the Council adopted inflation index, refer to the City website at:
<http://vancouver.ca/home-propertydevelopment/annual-inflation-index.aspx>.

Density Bonusing

Density bonus zoning (DBZ) is used as a zoning tool that permits developers to build additional floor space, in exchange for amenities and/or 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.
- Additional 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 'affordable housing and amenity share' contribution rate set out in Schedule F of the Zoning & Development By-law. New community plan areas are actively pursuing new DBZ areas. DBZ contributions are currently approved in Norquay, Marpole, Joyce-Collingwood, Mount Pleasant Industrial Area, and False Creek Flats.