CITY OF VANCOUVER

ADMINISTRATIVE REPORT

Report Date:	June 26, 2019
Contact:	Chris Robertson
Contact No.:	604.873.7684
RTS No.:	13247
VanRIMS No.:	08-2000-20
Meeting Date:	July 23, 2019

TO: Vancouver City Council

FROM: General Manager of Planning, Urban Design and Sustainability

SUBJECT: 2019 Annual Rate Adjustments to Density Bonus Contributions

RECOMMENDATIONS

A. THAT the General Manager of Planning, Urban Design and Sustainability be instructed to make application to implement 2019 inflationary rate adjustments for non-residential density bonus contributions (I-1A, I-1B, and I-3) by amending Schedule F of the Zoning and Development By-law to be effective September 30, 2019, 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.

B. THAT, in light of the weakening residential market, Council forgo the 2019 inflationary rate adjustments on density bonus contributions related to residential development, as shown in Appendix A.

REPORT SUMMARY

This report seeks Council approval to adopt an inflationary rate adjustment to density bonus contributions (i.e. “affordable housing shares” and “amenity shares” in the Zoning and Development By-law) for certain non-residential categories with new rates becoming effective September 30, 2019.

The inflationary rate adjustment to density bonus contributions are an annual process that allows the City to keep pace with annual changes in property values and construction costs and helps ensure the continued delivery of necessary growth-related amenities and infrastructure. The proposed 2019 inflationary rate adjustment represents an increase of 5.2%, reflecting

annual increases in assessed property values and non-residential construction costs which are key factors in the costs of delivering the growth related capital investments. 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.

A core principle behind the annual inflationary rate adjustment system is that it should be able to adapt to market changes. As a result of a weakening residential market, it is recommended that this year's inflationary rate adjustment be applied only to non-residential rate categories, maintaining existing rates for residential uses.

The annual inflationary rate adjustment for Development Cost Levies (DCLs) and Community Amenity Contribution (CAC) targets is the subject of a separate report that was presented to Council on July 10, 2019.

Recommendations in this report have been shared with development industry stakeholders (Urban Development Institute, National Association of Industrial and Office Properties, Homebuilders Association Vancouver). At the time of finalizing this report, no comments or concerns had been received. While no letter was received from the National Association of Industrial and Office Properties (NAIOP) at the time of finalizing this report, it was indicated that a letter of non-support related to the recommended non-residential rate adjustment was forthcoming

COUNCIL AUTHORITY/PREVIOUS DECISIONS

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

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 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 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.
In June 2018, Council approved density bonus contributions to replace a CAC target in Grandview-Woodland.

In July 2018, Council approved density bonus contributions in Cambie Corridor and Grandview-Woodland.

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 rate adjustments to DCLs, CAC targets, and density bonus contributions 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 2019 inflationary rate adjustments to density bonus contributions. The annual inflationary rate adjustments to DCLs and CAC targets are the subject of a separate report that went before Council on July 10, 2019.

The annual inflationary rate adjustment system was developed using local and national best practices and is guided by a set of Council-adopted principles to:

- use publicly accessible, third party data;
- use transparent calculations that are accessible to external stakeholders;
- adjust rates upward or downward based on inflationary trends;
- adapt to sudden changes in the market; and
- be supportable by industry & stakeholders

The annual rate adjustment is initiated with reports to Council in either June or July proposing new DCL, CAC target, or density bonus contribution rates adjusted for inflation. If approved, these new rates come into effect annually on September 30th.

The system itself consists of two components. The first component is an index calculation based on year-over-year changes in property value (BC Assessment property roll) and a non-residential construction price index (Statistics Canada Non-Residential Construction Price Index). These inputs are then blended together to reflect the current Capital Plan program for anticipated investment into land acquisition and construction activity for the City.

Linking rates to an annual inflationary index results in rate increases when inflation is positive and rate decreases when inflation is negative. The 2019 BC Assessment[1] property roll for the City of Vancouver indicated a 1.2% increase in assessed property value, while the Statistics Canada[2] Non-Residential Construction Price Index for Q1 2019 recorded an increase of 6.0%

[1] BC Assessment, Property Roll for the City of Vancouver, 2019
[2] Statistics Canada, Non-Residential Building Construction Price Index for Vancouver, Q1 2019

from 2018. The City's 2019-2022 Capital Plan[3] is anticipated to invest 17% of its cash development contributions on land acquisition and 83% on construction.

Table 1 shows the annual inflationary index from 2010 to 2019.

Table 1: Annual Inflationary Index

Annual Inflationary Index		Data used to calculate index *(for information only)*			
Year	**Annual Inflationary Index**	**Local Property Value Inflation**	**Local Construction Cost Inflation**	**Capital Plan Blend**	
				Land	**Construction**
2010	-1.4%	1.5%	-6.8%	65%	35%
2011	8.8%	11.4%	3.9%	65%	35%
2012	10.3%	13.7%	4.2%	65%	35%
2013	1.3%	1.3%	1.3%	65%	35%
2014	1.6%	0.8%	3.0%	65%	35%
2015	3.4%	8.6%	1.7%	25%	75%
2016	4.6%	16.5%	0.6%	25%	75%
2017	11.9%	29.2%	6.1%	25%	75%
2018	4.8%	5.1%	4.7%	25%	75%
2019	**5.2%**	1.2%	6.0%	17%	83%

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

The second component of the annual inflationary rate adjustment system is a check on the index calculation through a review of local economic indicators to ensure that rates do not get ahead of inflationary trends. A review of economic indicators is included in the Strategic Analysis section of this report.

The annual inflationary rate adjustment system was initially adopted for DCLs in October 2009 and implemented across all DCL districts in 2010. Since then, Vancouver's development contribution system has expanded to include new tools that improve certainty and transparency. These tools included CAC targets and density bonus contributions and were introduced as new area plans were approved by Council. As a result, the number of projects with negotiated CACs is declining and the number of projects utilizing CAC targets and density bonus contributions is increasing (CAC targets now account for 50% of rezonings with CACs which is up from 10% CAC target usage in 2013). This eventually led to the expansion of the annual inflationary rate adjustment system in May 2016 to include CAC targets and density bonus contributions. As CAC targets and density bonus contributions 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. A similar one-time rate catch-up for DCLs was approved by Council in 2009 when the inflationary rate adjustment system was first adopted.

This system has provided more predictability to both the development industry and the City, and has been broadly supported by industry stakeholders. Over the years, Council has approved inflationary rate adjustments with average rate increases of approximately 5% between 2010 and 2018 (see Table 1).

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

[3] City of Vancouver, 2019-2022 Capital Plan

Recalibrations of DCL, CAC targets, and density bonus contributions may be required from time to time as public benefit strategies and Capital Plans are updated. This type of update includes a review of any potential impacts on development viability.

Recommended inflationary rate adjustments are presented in Appendix A. In 2017, Council approved amendments to the Zoning and Development By-law and the Downtown Official Development Plan to add heritage-related density bonus contributions. These heritage contributions are not subject to the annual inflationary rate adjustment system. Detailed background information on density bonus contributions are presented in Appendix B.

Strategic Analysis

The weakening market in the residential sector highlights the need to reconsider the timing and implications of applying the 2019 calculated inflationary rate adjustment on new residential development. It is recommended that this year’s inflationary rate adjustment not apply to residential rate categories. Most of the density bonus zones in the city are residential in nature; only the I-1A and I-1B zones in Mount Pleasant and I-3 in False Creek Flats are non-residential.

The City’s review of economic indicators supporting these recommendations is found after the rate tables below. To supplement the City’s review, Coriolis Consulting was commissioned by the City to do a third-party independent review of current market conditions in the city’s residential and non-residential market sectors. The findings in the Coriolis report align with the recommendations in this report supporting the partial rate adjustment approach for 2019. The Coriolis report is found in Appendix C.

Continued strong fundamentals in the non-residential market, including healthy demand for commercial, mixed employment and industrial space along with robust levels of construction activity, support staff’s recommendation to apply the 2019 inflationary rate adjustment across the non-residential market.

The proposed rate adjustments and rates for density bonus contributions can be found in Table 2.

Table 2: Rate Changes for Density Bonus Contributions
($/ft^2 on net additional density)

Density Bonus Area	Year Established	2018 Rate	Inflationary Adjustment (2018-2019)	Recommended 2019 Density Bonus Rate
Cambie Corridor (RM-8A and RM-8AN: 0.75 to 1.2 FSR)	2018	$55.00/ft^2	-	**$55.00/ft^2**
Grandview-Woodland (RM-8A and RM-8AN: 0.75 to 1.2 FSR)	2018	$3.36/ft^2	-	**$3.36/ft^2**
Grandview-Woodland (RM-11 and RM-11N: 0.75 to 1.7 FSR)	2018	$3.36/ft^2	-	**$3.36/ft^2**
Grandview-Woodland (RM-12N: 0.75 to 1.7 FSR)	2018	$3.36/ft^2	-	**$3.36/ft^2**
False Creek Flats (I-3)	2017	$10.00/ft^2	+$0.52/ft^2	**$10.52/ft^2**
False Creek Flats (FC-2)	2017	$120.00/ft^2	-	**$120.00/ft^2**
Mount Pleasant (I-1A, I-1B zones: 3.0 to 5.0 FSR)	2017	$6.29/ft^2	+$0.33/ft^2	**$6.62/ft^2**
Mount Pleasant (I-1B zone: 5.0 to 6.0 FSR)	2017	$45.06/ft^2	+$2.35/ft^2	**$47.41/ft^2**
Joyce-Collingwood (RM-9BN zone: 0.7 to 2.0 FSR)	2016	$3.52/ft^2	-	**$3.52/ft^2**
Norquay (RM-9A and RM-9AN zones: 0.7 to 2.0 FSR)	2016	$19.49/ft^2	-	**$19.49/ft^2**
Marpole (RM-8 and RM-8N zones: 0.75 to 1.2 FSR)	2014	$20.00/ft^2	-	**$20.00/ft^2**
Marpole (RM-9 and RM-9N zones: 0.75 to 2.0 FSR)	2014	$66.55/ft^2	-	**$66.55/ft^2**

Sections 1 and 2 explain the key rationale behind the recommended rate adjustments in this report.

1) Economic Indicators

As part of the annual inflationary rate adjustment process, current economic indicators were 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:

Local Economy

- The Conference Board of Canada is forecasting 2.3% growth in the Vancouver CMA Gross Domestic Product (GDP) for 2019[4]
- Employment is forecast to grow 2.1% and unemployment rate is forecast to be 4.6% in 2019[4];

Residential Market

- According to City of Vancouver data, the value of year-to-date building permits issued (as of March 2019) has declined by 24.1% from last year's value[5];
- According to CMHC, year-to-date new housing starts in the City (as of May 2019) have increased by 3.8% compared to 2018[6];
- According to CMHC, year-to-date new housing absorptions in the City (as of May 2019) have declined 20% compared to 2018[6];
- UDI's State of the Market report for Q1 2019 also showed that sales across new concrete condominiums, wood frame condominiums, and townhouses have declined to some of the lowest levels observed in Vancouver since Q1 2013 and that inventories of unsold units are trending upward[7];
- UDI's State of the Market report for Q4 2018 indicated that new tax measures and stricter mortgage lending policies have contributed to uncertainty and pessimism in the Metro Vancouver market from real estate investors[8];
- According to data from the Real Estate Board of Greater Vancouver (April 2019), resale home prices have declined year-over-year for all housing types in all locations of the region. In Vancouver, year-over-year resale prices are down between 9% and 14% depending on the location and type of housing[9].

Non-Residential Market

- Colliers[10], Cushman & Wakefield[11], and CBRE[12] indicate strong demand for office space with vacancy rates reported as low as 2.0% in Downtown Vancouver along with high amounts of office floor area absorption and increased average asking rents. There is also a large amount of supply anticipated for completion in the early 2020s with large multinational tech firms opening new offices in Vancouver.
- Colliers[13], Cushman & Wakefield[14], and CBRE[15] also report increased demand for industrial floor space with vacancy rates reported as low as 1.9% in Vancouver. New supply is being constructed featuring a mix of ground floor production space and office on upper levels.

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[4] Conference Board of Canada, Metropolitan Outlook 1 – Spring 2019
[5] City of Vancouver, Statement of Building Permits Issued, March 2019
[6] CMHC, Housing Information Portal, May 2019
[7] UDI, State of the Market Q1 2019
[8] UDI, State of the Market Q4 2018
[9] Real Estate Board of Greater Vancouver, Monthly Market Report, April 2019
[10] Colliers, Vancouver Office Market Report Q1 2019
[11] Cushman & Wakefield, Marketbeat Vancouver, BC, Office Q1 2019
[12] CBRE, Vancouver Office Marketview Q1 2019
[13] Colliers, Vancouver Industrial Market Report Q1 2019
[14] Cushman & Wakefield, Marketbeat Vancouver, BC Industrial Q1 2019
[15] CBRE, Vancouver Industrial Marketview Q1 2019

2) Ensuring rate adjustments do not get ahead of inflationary trends

When Council adopted the inflationary indexing system in 2009, it was recognized that if and when the market trends down, the system should be able to adapt so that rates do not overshoot the market (i.e. do not get ahead of inflationary trends).

It is important to note that the inputs into Vancouver's index calculation are somewhat "rear-view" looking. BC Assessment property values for 2019 are based on property values that were assessed in July 2018 and Statistics Canada's non-residential construction price index is based on data from the first quarter of 2019. When these inputs are blended together with the City's Capital Plan, the resultant inflationary index by itself is reflective of a market that existed several months ago and would not be responsive to sudden market shifts. This can occasionally result in situations where the inflationary rate adjustment as calculated by the index is not aligned with the market condition of the day. Under these circumstances, the City would consider the appropriateness of the magnitude of the rate increase in light of changing market conditions and recommend alternative approaches.

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.

Should Council approve the recommendations to apply inflation to non-residential rate categories only, the City could be forgoing approximately $0.1 million in development contributions from density bonus contributions that could have been secured if inflation was also applied to residential rate categories (based on existing development forecasts). This figure may be marginally higher as density bonus zoning has attracted elevated levels of activity, especially along the Cambie Corridor where a simplified rezoning process has enabled privately-initiated rezonings to the RM-8A or RM-8AN density bonus zone. However, applying the inflationary rate adjustment to the residential rate categories under weakened market conditions may negatively impact development viability and make delivery of housing units even more challenging.

As per Council policy, the rates are typically adjusted on an annual basis to preserve the City's ability to deliver much needed public amenities and infrastructure in light of construction cost and property inflation, and to avoid large rate increase that might be triggered by less frequent adjustments. The circumstances for this year, especially those around current market conditions, warrant a considered approach.

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 recent development activity, there is some evidence that an increase on residential rates could deter development while an inflationary increase on non-residential density bonus contributions would still be in line with market conditions.

Development charges have increased considerably over the last two years as a number of new or updated charges have been implemented. These include:

- City of Vancouver – Update to City-wide DCL (2017)
- City of Vancouver – Implementation of Vancouver Utilities DCL (2018)
- Metro Vancouver – Update to Greater Vancouver Sewerage and Drainage District Development Cost Charge (DCC) (2018)
- TransLink – Implementation of TransLink DCC (2019), with rates payable starting January 15, 2020

In addition, new taxes and regulations have also been introduced in recent years impacting new development. These include:

- City of Vancouver – Implementation of Empty Homes Tax (2018)
- City of Vancouver – Approval of 2% tax shift from commercial to residential over three years (2019)
- Province of BC – Implementation of Additional School Tax on high-value residential properties (2018)
- Province of BC – Amendments to Real Estate Development Marketing Act (2018)
- Province of BC – Implementation of Speculation and Vacancy Tax (2019)
- Federal Government – Changes to mortgage stress test (2018)

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, Homebuilders Association Vancouver); 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

Given present market conditions, staff recommend applying the 5.2% inflationary rate increase only to commercial and industrial rate categories, which includes the I-1A and I-1B zones in the Mount Pleasant Industrial Area, and the I-3 zone in False Creek Flats. Applying the inflationary rate increase to residential development could deter development from proceeding.

This process, which has been ongoing since 2010, synchronizes the inflationary rate adjustment of all development contributions and continues to align development contribution rates with local construction and property inflation. Annual rate adjustments maintain the purchasing power of growth-related development revenues so that civic facilities and infrastructure to serve new residents and workers can be provided.

* * * * *

BY-LAW NO.

**A By-law to amend Zoning and Development By-law No. 3575
regarding 2019 Annual Inflationary Adjustments
to Density Bonus Contributions available in certain zoning districts**

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

1. This By-law amends the indicated provisions of the Zoning and Development By-law.

2. Council replaces Schedule “F” to the By-law, by adopting the Schedule “F” attached to this By-law as Schedule “A”.

3. A decision by a court that any part of this By-law is illegal, void, or unenforceable severs that part from this By-law, and is not to affect the balance of this By-law.

4. This By-law is to come into force and take effect on September 30, 2019.

ENACTED by Council this day of , 2019

Mayor

City Clerk

“Schedule A”
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	Affordable Housing Share Cost	Amenity Share Cost
RM-8 and RM-8N (Marpole)	\$215.28 per m^2	\$215.28 per m^2
RM-8A and RM-8AN (Cambie Corridor)	\$592.01 per m^2	\$592.01 per m^2
RM-8A and RM-8AN (Grandview-Woodland)	\$36.13 per m^2	\$36.13 per m^2
RM-9 and RM-9N (Marpole)	\$716.34 per m^2	\$716.34 per m^2
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
RM-11 and RM-11N	\$36.13 per m^2	\$36.13 per m^2
RM-12N	\$36.13 per m^2	\$36.13 per m^2
I-1A (Mount Pleasant)	-	\$71.26 per m^2 (to a max FSR of 5.0 above 3.0 FSR)
I-1B (Mount Pleasant)	-	Level 1 - \$71.26 per m^2 (to a max FSR of 5.0 above 3.0 FSR) Level 2 - \$510.32 per m^2 (to a max FSR of 6.0 above 5.0 FSR)
I-3		\$113.24 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:

ANNUAL INFLATION ADJUSTMENT OF AMENITY SHARE COST AND AFFORDABLE HOUSING SHARE COST = (ANNUAL CONSTRUCTION INFLATION x 0.83) + (ANNUAL PROPERTY VALUE INFLATION x 0.17)

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. 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 '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 select zones in Norquay, Marpole, Joyce-Collingwood, Mount Pleasant Industrial Area, False Creek Flats, Grandview-Woodland, and Cambie Corridor.

In 2017, Council approved amendments to the Zoning & Development By-law and the Downtown Official Development Plan (ODP) to add DBZ provisions related to heritage to select existing zones. These amended zones are functionally similar to other DBZs, except that the 'amenity share' is narrowly defined as heritage conservation and that contribution rates are set out in Schedule G of the Zoning & Development By-law and Section 3.15 in the Downtown ODP. The annual inflationary adjustment system does not apply to these heritage amenity shares because the costs associated with heritage conservation are fundamentally different from the capital costs to deliver new/expanded community centres, libraries, parks, childcare centres, affordable housing and other types of amenities.

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VIA EMAIL

21 June 2019

Chris Clibbon
Planner, Citywide and Regional Planning
City of Vancouver
453 West 12th Avenue
Vancouver, BC
V5Y 1V4

Dear Chris:

Re: Conditions in the Vancouver Apartment, Office and Industrial Markets

The City of Vancouver uses a Council-adopted annual inflationary index to keep development cost levy (DCL), community amenity contribution (CAC) target rates and density bonus rates in line with the costs the City incurs to provide new amenities and public facilities. For 2019, the inflationary index has been calculated at +5.2%. However, the index is backward looking and is based on changes in land values and construction costs over the past 12 to 18 months. So as input to determining whether or not to apply the inflationary index each year, the City reviews existing market conditions to ensure that rates do not overshoot the market if there is sudden change in market trends.

Therefore, the City asked Coriolis to provide an overview of recent trends and current conditions in the City's strata apartment[1], office and industrial markets as input to the City's decision about applying the inflationary index.

Strata Apartment Market

We reviewed recent trends and current conditions in the City's strata apartment market, including trends in:

- Sales prices.
- The pace of sales of new units.
- The pace of new project launches (new presales marketing launches).
- Incentives being offered at new projects currently marketing.
- The inventory of new units available for sale.
- New strata apartment housing starts.
- Changes in apartment construction costs.

The key data we reviewed is included in Attachments A to H.

[1] We focused on the strata apartment market as this makes up the majority of new housing construction in the City in a typical year.

Based on these indicators, the conditions in the strata apartment market can be summarized as follows:

- Strata apartment prices have been declining since mid-2018, but construction costs have increased over this time period. This has negatively affected the financial viability of new strata apartment development.
- The pace of new strata apartment unit sales has declined significantly since mid-2018, but new construction has not slowed resulting in a large increase of unsold inventory at projects currently marketing new units. Construction has not slowed as many projects achieved the necessary presales required to obtain financing prior to the slow down in sales in mid-2018.
- The number of new strata apartment projects that have started presales campaigns has slowed since mid-2018.
- Significant incentives are being offered to realtors and prospective purchasers by new projects that are currently selling units.

Overall, conditions in the strata apartment market have been deteriorating since mid-2018. Prices are declining, the volume of sales is declining, unsold inventory is increasing, and new projects are currently facing challenges achieving the presales targets required to obtain financing. These trends, along with high construction costs, make new strata apartment development increasingly challenging from a market and financial perspective.

Office Market

We reviewed recent trends and current conditions in the City's office market, including trends in:

- Lease rates for new or high quality office space (Class AAA).
- Vacancy rates.
- Cap rates.
- The pace of new office construction.

The data we reviewed is included in Attachment I.

Based on these indicators, the conditions in the City's office market can be summarized as follows:

- Lease rates for high quality office space have been steadily increasing since early 2017 and have continued to increase during 2019. New strata office space values have also been increasing.
- Office vacancy rates in Vancouver are at historic lows.
- Cap rates for high quality office buildings have been stable.
- New office buildings are proceeding as planned.

Overall, conditions in the City's office market have been stable or improving since mid-2018. Office lease rates and values are stable or increasing, there is significant demand for new office space, and new office projects are underway.

Industrial Market

We reviewed recent trends and current conditions in the City's industrial market, including trends in:

- Lease rates for industrial space.
- Vacancy rates.
- Cap rates.
- The pace of new industrial construction.

The data we reviewed is included in Attachment J.

Based on these indicators, the conditions in the City's industrial market can be summarized as follows:

- Lease rates for new industrial space have been increasing since 2017 and this has continued during 2019. New strata industrial values have also been increasing.
- Industrial vacancy rates are very low.
- Cap rates for industrial buildings have been declining.
- New industrial buildings are proceeding as planned.

Overall, market conditions in the City's industrial market have been stable or improving since mid-2018. Industrial lease rates and values are increasing, there is demand for new industrial space, and new industrial projects are underway.

Please let me know if you have any questions or comments.

Yours truly,

CORIOLIS CONSULTING CORP.

Blair Erb

Blair Erb

Attachment A – Apartment Home Price Index

Month	Vancouver East Apartment HPI	Vancouver West Apartment HPI
Jan-17	264.5	216.2
Feb-17	273.4	225
Mar-17	285.3	227.3
Apr-17	291.6	235.5
May-17	298.7	242
Jun-17	304.5	250.8
Jul-17	313.5	254.3
Aug-17	317.2	255.5
Sep-17	320.1	258.3
Oct-17	324.1	261.7
Nov-17	328.4	263.2
Dec-17	329.0	261.9
Jan-18	333.0	263.6
Feb-18	340.6	271.2
Mar-18	349.1	274.1
Apr-18	348.0	273.1
May-18	347.3	274.3
Jun-18	343.5	273.4
Jul-18	341.7	271
Aug-18	340.7	267.7
Sep-18	339.7	260.9
Oct-18	334.8	262.7
Nov-18	327.7	253.7
Dec-18	322.9	254.3
Jan-19	322.5	254.2
Feb-19	324.4	254.5
Mar-19	326.8	249.6
Apr-19	329.4	248.1
May-19	324.9	246.1

Source: Real Estate Board of Greater Vancouver

Attachment B – Average Resales Price of Newer Apartments in City of Vancouver (5 years old or less)

Average Sales Price	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Vancouver East	$701,355	$748,079	$835,308	$808,078	$811,241	$858,965	$771,943	$761,763	$810,737
Vancouver West	$1,048,220	$1,182,146	$1,110,896	$1,213,013	$1,218,844	$1,151,850	$1,078,039	$1,192,204	$1,054,019

Source: MLS Sales Data

Attachment C – Number of Resales of Newer Apartments in City of Vancouver (5 years old or less)

Sold Units	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Vancouver East	203	275	165	225	228	228	179	116	110
Vancouver West	258	322	236	227	236	207	159	99	113

Source: MLS Sales Data

Attachment D – Absorption at New Projects Currently Marketing by Quarter – City of Vancouver

	2016				2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Quarterly Absorption	78	107	73	87	71	79	86	76	60	66	78	62	37

Source: NHS Live

Attachment E – Residential Construction Cost Index

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Vancouver CMA	96.3	99.2	101.3	103.2	105.4	107.3	108.4	109.6	110

Source: Statistics Canada. Table 18-10-0135-02 Building construction price indexes, percentage change, quarterly

Attachment F – New Project Launches in City of Vancouver by Quarter

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Concrete	7	3	6	14	4	3	2	7	1
Wood Frame	1	0	2	2	0	2	2	3	0
Total	8	3	8	16	4	5	4	10	1

Source: NHS Live

Attachment G – Units Available for Sale at New Projects Currently Marketing – City of Vancouver

	2016				2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Apartment Units	1,437	1,760	1,438	2,221	1,602	1,468	1,359	1,819	1,936	2,354	3,453	6,086	5,867

Source: NHS Live

Attachment H – Condo Apartment Starts by Quarter – City of Vancouver

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Condo Apartment Units	442	424	645	1,315	738	355	664	433	1,091

Source: CMHC

Attachment I – City of Vancouver Office Market Statistics

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Vacancy Rate (Downtown)	6.3%	5.7%	5.1%	5.2%	4.6%	4.2%	3.9%	3.4%	2.5%
Weighted Average Asking Rent (Downtown AAA)	$35.29	$34.46	$34.23	$43.22	$44.61	$40.00	$48.00	$48.00	$50.00
Downtown Cap Rates	3.50%-4.50%	3.50%-4.50%	3.50%-4.50%	3.50%-4.50%	3.50%-4.25%	3.50%-4.25%	3.50%-4.25%	3.50%-4.25%	3.50%-4.25%
Under Construction Downtown (sf)	475,780	475,000	440,593	728,649	875,267	1,758,451	2,519,461	3,711,132	4,257,384
Under Construction Broadway Corridor (sf)	350,000	350,000	304,000	352,932	432,932	454,685	196,685	109,592	499,963

Sources: Colliers, Cushman Wakefield

Attachment J – City of Vancouver Industrial Market Statistics

	2017				2018				2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
City of Van Vacancy Rate	2.0%	1.7%	2.4%	1.9%	2.2%	1.5%	1.8%	2.0%	1.9%
City of Van Weighted Average Asking Rent	$12.94	$16.19	$15.42	$15.83	$17.09	$17.23	$16.89	$17.65	$17.13
Industrial Cap Rates (CMA)	4.00%-5.00%	4.75%-5.00%	4.25%-5.00%	4.00%-5.00%	4.00%-5.00%	3.75%-4.75%	3.50%-4.75%	3.25%-4.75%	3.25%-4.75%
City of Van Industrial Under Construction (sf)	541,367	519,367	520,597	547,732	468,520	468,520	416,507	462,998	461,967

Sources: Colliers