CITY OF VANCOUVER

REFERRAL REPORT

Report Date:	June 23, 2020
Contact:	Chris Robertson
Contact No.:	604.873.7684
RTS No.:	13861
VanRIMS No.:	08-2000-20
Meeting Date:	July 21, 2020

TO: Vancouver City Council

FROM: General Manager of Planning, Urban Design and Sustainability

SUBJECT: 2020 Annual Inflationary Rate Adjustments to Density Bonus Contributions

RECOMMENDATIONS

THAT the General Manager of Planning, Urban Design and Sustainability be instructed to make an application to implement 2020 inflationary rate adjustments for density bonus contributions by amending Schedule F of the Zoning and Development By-law to be effective September 30, 2020, 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 an inflationary rate adjustment to density bonus contributions (i.e. “affordable housing shares” and “amenity shares” in the Zoning and Development By-law) with new rates becoming effective September 30, 2020.

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 2020 inflationary rate adjustment represents a decrease of 0.8%, reflecting changes in land and non-residential construction costs which are key factors in the costs of delivering the growth related capital investments.

The annual inflationary rate adjustment for Development Cost Levies (DCLs) and Community Amenity Contribution (CAC) targets is the subject of a separate report that will be presented to Council on July 21, 2020.

Recommendations in this report have been shared with development industry stakeholders (Urban Development Institute, National Association of Industrial and Office Properties, Homebuilders Association Vancouver) as well as with various non-profit groups. At the time of writing this report, no comments or concerns had been received on the proposed changes to the density bonus contributions.

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.

In December 2019, Council approved rezoning of certain properties within Grandview-Woodland to density bonus zones.

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. The system is designed to also accommodate deflation. This report outlines the 2020 inflationary rate adjustments to density bonus contributions. The annual inflationary rate adjustments to DCLs and CAC targets are the subject of a separate report (RTS 13862).

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 2020 BC Assessment property roll for the City of Vancouver indicated an 8.9% decrease in assessed property value, while the Statistics Canada Non-Residential Construction Price Index for Q1 2020 recorded an increase of 0.8% from 2019. The City's 2019-2022 Capital Plan 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 2011 to 2020.

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**
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%
2020	**-0.8%**	-8.9%	0.8%	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). In May 2016, the annual inflationary rate adjustment system was expanded to also apply to 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 2011 and 2019 (see Table 1). It is important to note that in 2019, Council approved the 5.2% increase to non-residential rate categories, but opted not to proceed with the 5.2% increase to residential rate categories in response to weakening market conditions in this sector.

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

Recalibrations of DCLs, CAC targets, and density bonus contributions may be required from time to time to align with public benefit strategies and Capital Plans while considering potential impacts on development viability. These recalibrations are often done every four years, with the next recalibration anticipated to be completed in 2021/ 2022.

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 is presented in Appendix B.

Strategic Analysis

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. The economic impact of the COVID-19 global pandemic has resulted in a variety of economic indicators shifting negatively during the first two quarters of 2020.

While the impacts of the pandemic remain uncertain, current trends and forecasts indicate the following:

Economic Context

- Central 1 Credit Union is forecasting a 7.3% decline in British Columbia's Gross Domestic Product (GDP) for 2020.[1]
- Vancouver CMA (Metro Vancouver) employed labour force has dropped 250,000 since March 2020, while the region's unemployment rate has now increased to 14.1%.[2]

Market Indicators:

- According to City data, the value of year-to-date building permits issued for commercial/industrial new builds (as of May 2020) has declined by 60% from last year's value while year-to-date values for new residential has decreased by 65%.[3]
- According to CMHC, year-to-date housing starts in Vancouver (as of May 2020) have declined by 73% compared to 2019[4];
- According to CMHC, year-to-date new housing completions in Vancouver (as of May 2020) have increased by 5% compared to 2019;

[1] Credit 1 Central Union, April 2020
[2] Statistics Canada, June 2020
[3] City of Vancouver, Statement of Building Permits Issued, May 2020
[4] CMHC, Housing Information Portal, May 2020

- UDI's State of the Market report for Q1 2020 showed that sales across new concrete condominiums, wood frame condominiums, and townhouses have declined by 18% compared to sales recorded in Q1 2019[5];
- According to data from the Real Estate Board of Greater Vancouver (May 2020), resale volumes over the past two months have declined by 40% to 60% below the 10-year monthly sales averages. April 2020 had the lowest monthly sales total since 1982.[6]
- Colliers[7] Q1 2020 office market report shows Downtown Vancouver vacancy at 1.3% and still showing strong market fundamentals despite the COVID-19 outbreak.
- Colliers[8] Q1 2020 industrial market report shows Vancouver vacancy at 4.6% and not showing any significant impacts of COVID-19 (vacancy is hovering near record lows),

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 markets were to trend downwards, the system should be able to adapt so that rates do not overshoot the market and adjust to market downturns (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 2020 are based on property values that were assessed in July 2019 and Statistics Canada's non-residential construction price index is based on data from the first quarter of 2020. When these inputs are blended together with the City's Capital Plan, the resultant inflationary index by itself is reflective of a market assessed months ago and may not be responsive to sudden shifts or reflective of current markets. This could 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 adjusting the rate increase in light of changing market conditions and recommend alternative approaches.

This section of the report discusses the recommendations put forth for Council decision.

THAT the General Manager of Planning, Urban Design and Sustainability be instructed to make an application to implement 2020 inflationary rate adjustments for density bonus contributions by amending Schedule F of the Zoning and Development By-law to be effective September 30, 2020, as shown in Appendix A;

The proposed rate adjustments and rates for density bonus contributions are found in Tables 2 with a complete list of density bonus rate adjustments by district available in Appendix A.

[5] UDI, State of the Market Q1 2020
[6] Real Estate Board of Greater Vancouver, Monthly Market Report, May 2020
[7] Colliers, Vancouver Office & Industrial Market Reports Q1 2020
[8] Colliers, Vancouver Office Market Report Q1 2020

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

Density Bonus Area	Year Established	2019 Rate	Inflationary Adjustment (2019-2020)	Recommended 2020 Density Bonus Rate
Cambie Corridor (RM-8A and RM-8AN: 0.75 to 1.2 FSR)	2018	$55.00/ft^2	($0.46/ft^2)	**$54.54/ft^2**
Grandview-Woodland (RM-8A and RM-8AN: 0.75 to 1.2 FSR)	2018	$3.36/ft^2	($0.03/ft^2)	**$3.33/ft^2**
Grandview-Woodland (RM-11 and RM-11N: 0.75 to 1.7 FSR)	2018	$3.36/ft^2	($0.03/ft^2)	**$3.33/ft^2**
Grandview-Woodland (RM-12N: 0.75 to 1.7 FSR)	2018	$3.36/ft^2	($0.03/ft^2)	**$3.33/ft^2**
False Creek Flats (I-3)	2017	$10.52/ft^2	($0.09/ft^2)	**$10.43/ft^2**
False Creek Flats (FC-2)	2017	$120.00/ft^2	($1.00/ft^2)	**$119.00/ft^2**
Mount Pleasant (I-1A, I-1B zones: 3.0 to 5.0 FSR)	2017	$6.62/ft^2	($0.06/ft^2)	**$6.56/ft^2**
Mount Pleasant (I-1B zone: 5.0 to 6.0 FSR)	2017	$47.41/ft^2	($0.40/ft^2)	**$47.01/ft^2**
Joyce-Collingwood (RM-9BN zone: 0.7 to 2.0 FSR)	2016	$3.52/ft^2	($0.03/ft^2)	**$3.49/ft^2**
Joyce-Collingwood (RM-10 and RM-10N zone: 0.9 to 2.6 FSR)	2018	$15.00/ft^2	($0.13/ft^2)	**$14.87/ft^2**
Norquay (RM-9A and RM-9AN zones: 0.7 to 2.0 FSR)	2016	$19.49/ft^2	($0.16/ft^2)	**$19.33/ft^2**
Marpole (RM-8 and RM-8N zones: 0.75 to 1.2 FSR)	2014	$20.00/ft^2	($0.17/ft^2)	**$19.83/ft^2**
Marpole (RM-9 and RM-9N zones: 0.75 to 2.0 FSR)	2014	$66.55/ft^2	($0.56/ft^2)	**$65.99/ft^2**

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; there is no timeline requirement for applications to reach building permit issuance before in-stream rate protection expires.

Where density bonus contributions are decreasing as a result of the 0.8% inflationary adjustment, in-stream rate protection will not be applied to ensure applicants benefit from the lower rate in effect.

Implications/Related Issues/Risk

Financial

Rate adjustments for density bonus contributions have financial implications for the City and the development industry.

Should Council approve the recommendation to decrease density bonus contributions by 0.8%, the City could forego over a one year period approximately $11,000 in development contributions that could have been secured if the inflationary adjustment was not applied.

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 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 changes that might be triggered by less frequent adjustments.

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.

Based on a review of comparable regional municipalities, Vancouver's DCL rates continue to be in-line with development cost charges in the Metro Vancouver region for residential development. Vancouver's non-residential DCL rates are at the higher end of regional rates. Development charges have increased considerably over the last two years as a number of new or updated charges have been implemented.

Engagement and Communications Plan

The following steps were taken to ensure broad notification 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 and Density Bonusing Information Bulletins, as well as the CAC Policy (available online);
- 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 (NAIOP), Homebuilders Association Vancouver), with follow-up meetings with both the Urban Development Institute and NAIOP;
- Staff notification to various non-profit organizations; 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, no comments were received on the proposed adjustment to density bonus contributions.

CONCLUSION

This report seeks Council approval to adopt an inflationary rate adjustment to density bonus contributions with new rates becoming effective September 30, 2020.

The inflationary rate adjustment to density bonus contributions is 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 2020 inflationary rate adjustment represents a decrease of 0.8%, reflecting changes in the cost of land and non-residential construction costs which are key factors in the costs of delivering the growth related capital investments.

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BY-LAW NO.

A By-law to amend Zoning and Development By-law No. 3575 regarding 2020 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, 2020.

ENACTED by Council this day of , 2020

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)	\$213.48 per m^2	\$213.48 per m^2
RM-8A and RM-8AN (Cambie Corridor)	\$587.06 per m^2	\$587.06 per m^2
RM-8A and RM-8AN (Grandview-Woodland)	\$35.86 per m^2	\$35.86 per m^2
RM-9 and RM-9N (Marpole)	\$710.34 per m^2	\$710.34 per m^2
RM-9A and RM-9A/N (Norquay)	\$208.03 per m^2	\$208.03 per m^2
RM-9BN (Joyce-Collingwood Apartment)	\$37.57 per m^2	\$37.57 per m^2
RM-10 and RM-10N	\$160.11 per m^2	\$160.11 per m^2
RM-11 and RM-11N	\$35.86 per m^2	\$35.86 per m^2
RM-12N	\$35.86 per m^2	\$35.86 per m^2
I-1A (Mount Pleasant)	-	\$70.66 per m^2 (to a max FSR of 5.0 above 3.0 FSR)
I-1B (Mount Pleasant)	-	Level 1 - \$70.66 per m^2 (to a max FSR of 5.0 above 3.0 FSR) Level 2 - \$506.05 per m^2 (to a max FSR of 6.0 above 5.0 FSR)
I-3		\$112.29 per m^2
FC-2		\$1280.86 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.