CITY OF VANCOUVER

REFERRAL REPORT

Report Date:	June 25, 2024
Contact:	Chris Robertson
Contact No.:	604.873.7684
RTS No.:	16348
VanRIMS No.:	08-2000-20
Meeting Date:	July 9, 2024

TO:	Vancouver City Council
FROM:	General Manager of Planning, Urban Design and Sustainability
SUBJECT:	2024 Annual Inflationary Rate Adjustments to Density Bonus Contributions

RECOMMENDATION TO REFER

THAT the General Manager of Planning, Urban Design and Sustainability be instructed to bring forward the amendments to Schedule F of the Zoning and Development By-law as described below, and that the application be referred to Public Hearing together with the recommendation set out below;

FURTHER THAT the Director of Legal Services be instructed to prepare the necessary by-law, in accordance with the recommendation set out below, for consideration at the Public Hearing.

RECOMMENDATION FOR PUBLIC HEARING

A. THAT Council approve, in-principle, a 2024 inflationary rate adjustment of 5.7% for density bonus contributions by amending Schedule F of the Zoning and Development By-law;

FURTHER THAT, in recognition of current market conditions, the implementation of the 2024 inflationary rate increase be deferred and included as part of the 2025 annual inflationary rate adjustment to come into effect on September 30, 2025;

AND FURTHER THAT the Director of Legal Services be instructed to bring forward amendments to the Zoning and Development By-law as generally set out in Appendix B.

B. THAT Recommendation A be adopted on the following conditions:

(i) THAT passage of the above resolutions creates no legal rights for any person, or obligation on the part of the City and any expenditure of funds or incurring of costs is at the risk of the person making the expenditure or incurring the cost;

(ii) THAT any approval that may be granted following the public hearing shall not obligate the City to enact any by-laws; and

(iii) THAT the City and all its officials shall not in any way be limited or directed in the exercise of their authority or discretion, regardless of when they are called upon to exercise such authority or discretion.

REPORT SUMMARY

This report seeks Council approval, in-principle, to adopt a 2024 inflationary rate adjustment of 5.7% to density bonus contributions and to defer the implementation of the 2024 increase to September 30, 2025, along with next year's inflationary adjustment.

The inflationary rate adjustment to development contributions (e.g. Development Cost Levies (DCLs), Community Amenity Contribution (CAC) targets, density bonus contributions) is applied annually and enables the City to keep pace with the increasing cost of providing growth-related amenities and infrastructure. The 2024 inflationary rate adjustment of 5.7% reflects the annual increases in the cost of land and non-residential construction. The recommendation to defer this year's inflationary adjustment to 2025 takes into consideration current economic conditions.

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 engineering infrastructure and a City-wide CAC framework.
- In October 2009, Council adopted the annual inflationary DCL rate adjustment system, with the new rates effective on September 30 of each year.
- In May 2016, Council adopted the DCL annual inflationary rate adjustments system for density bonus contributions, CAC targets, and density bonus contributions, with new rates effective on September 30, 2023.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

Development contributions are the primary funding sources for amenities and infrastructure necessary to support population and employment growth. Development contributions offset the cost of growth and limit the impact on property taxes and other City funding sources.

The annual inflationary rate adjustments to DCLs, CAC targets, and density bonus contributions form an integral part of the City's development contribution system primarily to maintain its purchasing power year over year. Annual inflationary rate adjustments result in smaller, more predictable rate changes that are supported by the development industry. This report outlines the 2024 inflationary rate adjustments to density bonus contributions. A companion report on the July 10th Council agenda, proposes the 2024 inflationary rate adjustments to DCLs and CAC Targets (RTS 16347).

Included in Appendix A is an overview of the annual inflationary rate adjustment system, the annual inflationary index from 2015 to 2024, a review of current local economic indicators, and detailed background information on density bonus contributions.

Strategic Analysis

The annual inflationary rate adjustment includes a review of current local market trends and forecasts to inform rate adjustments. The City also retained Coriolis Consulting to assess market conditions. The Coriolis review indicates that current economic conditions remain challenging. Project costs have been negatively impacted by both rising construction costs and successive interest rate hikes by Bank of Canada. For more on Coriolis' market assessment see Appendix A.

In light of current economic conditions highlighted in Appendix A, staff are recommending that the 2024 inflationary rate adjustment to density bonus contributions be deferred and included as part of the 2025 inflationary rate adjustment.

Communications Plan

To ensure broad notification of this recommendation, the following engagement steps were taken:

- Posting of proposed rates on the City's Community Benefits from Development web page;
- Notice of staff recommendation in the City's Density Bonusing Bulletin;
- Newspaper notification; and
- Staff notification to local industry groups including Urban Development Institute, National Association of Industrial and Office Properties (NAIOP).

At the time of finalizing this report, staff had not received any correspondence from industry stakeholders.

Implications/Related Issues/Risk

Financial

A core principle of the City's Financing Growth policies is that development should pay its fair share of growth costs. Development contributions also must be set accordingly and should not deter development or negatively impact the delivery of housing and job space.

Density bonus contributions, together with other development contributions such as DCLs, CACs, and engineering conditions, help fund amenities and infrastructure to support new development and growth in the City and reduce the impact on property taxes and other City funding sources.

While Bill 46 - Housing Statutes (Development Financing) Amendment Act, 2023 brought forward by the Province in November 2023 presents an opportunity for the City to modernize and optimize its Financing Growth framework and tools, the available tools for municipalities to support growth are limited and outdated. Further, the shift in housing delivery to focus on rental and non-market housing will likely result in proportionately less development contributions to support delivery of core infrastructure and amenities. As such, staff will continue to pursue advocacy through the Federation of Canadian Municipalities (FCM) on modernization of the municipal growth framework to address the core challenges associated with securing funding for renewing and expanding core infrastructure and amenities to support growth and build complete community.

It is important to note that the City's water, sewer and transportation infrastructure are integrated into broader regional systems. This highlights the critical need for a long-term regional infrastructure plan and financial strategy, including how much development contributions are collected by regional authorities like Metro Vancouver and Translink, and how costs are shared among the various municipalities across the region.

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

Financial Implications for the City

Should Council approve the recommended deferral of the 2024 inflationary adjustment set out in this report, the City will forego approximately $550,000 in density bonus contribution revenue.

Financial Implications for Development

An independent review by Coriolis Consulting in Q2 2024 found that in Vancouver, development contributions in Vancouver result in downward pressure on the cost of land, which supports affordability. This review also confirmed that when rates are set based on economic feasibility testing, the rates will not negatively impact housing affordability or the supply of job space. If rates are set too high or do not allow sufficient time for the industry to adjust, then the supply of new housing and job space could be negatively impacted, especially in the short-term.

Based on an external review of local real estate development conditions, it was found that the value of additional density has not increased from when density bonus rates were recalibrated in 2023. Please refer to Appendix B for a summary of the market conditions. As such, staff recommend that the 2024 inflationary adjustment for density bonus contributions be deferred to 2025.

Legal

Section 565.1of the *Vancouver Charter* authorizes density bonus payments. The *Vancouver Charter* does not require Council to increase density bonus contributions, and Council can lawfully defer any increases.

CONCLUSION

As part of the annual inflationary rate adjustment, this report seeks Council approval, in-principle, to adopt the 5.7% increase, with the implementation of this increase to be deferred and included in the 2025 inflationary rate adjustment.

Development contributions are a key funding source for growth-related amenities and infrastructure. 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. To support the delivery of new housing and job space in this uncertain housing and job space market, staff are recommending that Council approve the 2024, 5.7% inflationary increase, with the implementation of this increase deferred to September 30, 2025.

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APPENDIX A
OVERVIEW

1. Overview of Inflationary Index System

The annual inflationary rate adjustment system was developed using local and national best practices and is guided by a set of Council-adopted principles that require the system 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 changes in the market; and
- be supportable by industry & stakeholders

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 blended together to reflect the City's current Capital Plan program and anticipated expenditure on land acquisition and construction (see Table 1).

Table 1: Annual Inflationary Index (2015 – 2024)

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	Capital Plan Blend: Construction
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%
2021	1.2%	1.4%	1.2%	17%	83%
2022	8.8%	10.3%	8.5%	17%	83%
2023**	8.3%	3.9%	9.2%	17%	83%
2024	5.7%	-1.0%	7.0%	17%	83%

* 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.
** In 2023, Council approved to defer the 8.3% inflationary DCL rate increase to September 30, 2024 in response to challenging market conditions.

Linking rates to an annual inflationary index results in rate increases when inflation is positive and rate decreases when inflation is negative. The 2024 BC Assessment[1] property roll for the City of Vancouver indicated a 1.0% annual decrease in assessed property value, while the Statistics Canada[2] Non-Residential Construction Price Index for Q1 2024 recorded an increase of 7.0% from Q1 2023. The City's 2023-2026 Capital Plan[3] is anticipated to invest 17% towards land acquisition and 83% towards construction costs.

[1] BC Assessment, Property Roll for the City of Vancouver, 2024
[2] Statistics Canada, Non-Residential Building Construction Price Index for Vancouver, Q1 2024
[3] City of Vancouver, 2023-2026 Capital Plan

It is important to note that the inputs into Vancouver's index calculation lag behind the most current market conditions. BC Assessment property values for 2024 are based on property values that were assessed in July 2023, and Statistics Canada's non-residential construction price index is based on data from the first quarter of 2024. This could occasionally result in situations where the inflationary rate adjustment as calculated by the index does not reflect shifting market conditions. To address this, a further step in the annual inflationary rate adjustment system is a review of local economic indicators. This review helps to ensure that rates are aligned with inflationary trends.

The inflationary adjustment system provides predictability/certainty to both the development industry and the City, and has been broadly supported by industry stakeholders as this results in more incremental changes between comprehensive updates done every four years. Over the years, Council has approved inflationary rate adjustments with average rate increases of approximately 5% between 2015 and 2024 (see Table 1). It is important to note that in 2019, Council approved a 5.2% increase to non-residential rate categories, but opted not to proceed with a 5.2% increase to residential rate categories in response to weakening market conditions in residential sector. In 2020, the inflationary index was -0.8%, which is the first time rates have decreased under the inflationary index system. In 2023, Council deferred the 8.3% inflationary rate increase to 2024.

Annual rate adjustment reporting to Council occurs in June or July proposing new DCL rates, CAC targets, or density bonus contribution rates that have been adjusted for inflation. If approved, these new rates come into effect annually on September 30th.

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

2. Review of Current Local Economic Indicators

As part of the annual inflationary rate adjustment process, current economic indicators are reviewed to verify the proposed rate adjustments are in-line with current local market trends and forecasts. In addition, the City of Vancouver retained Coriolis Consulting to perform an assessment of current real estate market conditions in Vancouver.

Economic Context

- Central 1 Credit Union is forecasting British Columbia's economy to be sluggish this year amidst financial pressures on households and businesses, although the housing markets show signs of recovery. A modest 1.1% increase in British Columbia's Gross Domestic Product (GDP) is forecast for 2024 (in comparison, recent years have seen 3.0% to 4.0% BC GDP increases).[4]
- Vancouver CMA (Metro Vancouver) unemployment rate is 5.3% as of April 2024, which is up from 5.2% in April 2023.[5]

[4] Credit 1 Central Union, BC Economic Outlook 2024-20263, April 2024
[5] Statistics Canada, Labour Force Characteristics Table 14-10-0380-01, May 2024

Market Indicators:

- According to City data, the value of year-to-date building permits issued (as of Apr 2024) is on par with where values were last year at this time, however values have decreased by half from year-to-date values from 2 years ago[6]
- According to CMHC, year-to-date housing starts in Vancouver (as of April 2024) have increased by 16% compared to 2023[7]
- According to data from the Greater Vancouver Realtors (May 2024), resale activity for Vancouver apartments decreased about 7% when comparing March-May volumes between 2023 and 2024. All property types saw annual price increases since May 2023 (Detached: 3-6%, Townhouse: 2-5%, Apartment: 0-3%)[8]
- Colliers Q1 2024 office market report shows Downtown Vancouver vacancy at 11.7% and the Broadway Corridor at 8.2%, both showing 2-3% increases from a year ago. Asking rental rates for office in the Downtown and Broadway markets have decreased 4-5% from last year.[9]
- Colliers Q1 2024 industrial market report shows Vancouver vacancy at 3.7%, increasing 2% from a year ago.[10]

Furthermore, Coriolis Consulting was commissioned in spring 2024 to perform an assessment of current real estate market conditions in Vancouver (all market sectors were reviewed including residential strata, residential rental, office, and industrial).

<u>Coriolis Market Condition Assessment (Spring 2024)</u>

The following provides a high-level assessment of local real estate development conditions by Coriolis Consulting outlining the changes from when Density Bonus rates were last updated in 2023.

Density bonus rates are based on the extra land value created by the additional permitted floorspace.

Since Density Bonus rates were recalibrated in 2023:

a) Project costs have increased since Density Bonus rates were recalibrated in June 2023:

[6] City of Vancouver, Statement of Building Permits Issued, Apr 2024
[7] CMHC, Housing Information Portal, Apr 2024
[8] Greater Vancouver Realtors, Monthly Market Report, May 2024
[9] Colliers, Vancouver Office and Industrial Market Reports Q1 2024
[10] Colliers, Vancouver Office Market Report Q1 2024

- From Q2 2023 to Q1 2024, construction costs increased about 4.0% to 4.5%. In the absence of increasing house prices, rents and lease rates, increased construction costs negatively affect the land value supported by new development.
- Rates have increased and decreased over the past year, but the June 2024 prime rate is the same as the June 2023 prime rate. So construction financing costs have not changed significantly over the past year.

b) The value of completed space for each main product type has been stable or slightly increasing since June 2023:

- Values for office and industrial space have remained relatively stable (or slightly increased) since June 2023 (Colliers data).
- Since June 2023, apartment rents in Vancouver have declined by 2% to 7% depending on bedroom type (Rentals.ca).
- As of May 2024, townhouse and apartment prices in Vancouver are either stable or slightly higher than June 2023 prices. Townhouse prices are in the range of 2.5% to 3.4% higher than June 2023. Apartment prices are flat to 1.5% higher than June 2023 (Greater Vancouver Realtors).

c) Vacancy rates for office and industrial in Vancouver have increased since June 2023 (Colliers).

Density Bonus rates are intended to reflect the additional land value created by additional permitted density. The market variables we reviewed indicate that the value of increased permitted density has not increased over the past year.

3. Density Bonus Zoning Contributions

Density bonus zoning contributions are 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 and Development By-law. New community plan areas are actively pursuing new Density bonus zoning contributions areas. Density bonus zoning 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 and Development By-law and the Downtown Official Development Plan (ODP) to add Density bonus zoning contributions provisions related to heritage to select existing zones. These amended zones are functionally similar to other Density bonus zoning contributions, except that the ‘amenity share’ is narrowly defined as heritage conservation and that contribution rates are set out in Schedule G of the Zoning and 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.

BY-LAW NO.

A By-law to amend Zoning and Development By-law No. 3575 regarding 2024 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, 2025.

ENACTED by Council this day of ,2024

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 or Amenity Share Cost
R1-1 (site area from 306 m² up to but not including 464 m² and site frontage from 10.0 m up to but not including 13.4 m)	Sub-area A - $32.29 per m2 Sub-area B - $32.29 per m2 Sub-area C - $32.29 per m2
R1-1 (site area from 464 m² up to but not including 557 m² and site frontage from 13.4 m up to but not including 15.1 m)	Sub-area A - $699.65 per m2 Sub-area B - $538.20 per m2 Sub-area C - $322.92 per m2
R1-1 (site area from 557 m² up to but not including 623 m² and site frontage from 15.1 m up to but not including 17.1 m)	Sub-area A - $699.65 per m2 Sub-area B - $538.20 per m2 Sub-area C - $322.92 per m2
R1-1 (site area of 623 m² or greater and site frontage of 17.1 m or greater)	Sub-area A - $1,506.95 per m2 Sub-area B - $1,076.39 per m2 Sub-area C - $753.47 per m2
RM-8 and RM-8N (Marpole)	$248.39 per m2
RM-8A and RM-8AN (Cambie Corridor)	$966.74 per m2
RM-8A and RM-8AN (Grandview-Woodland)	$41.71 per m2
RM-9 and RM-9N (Marpole)	$826.60 per m2
RM-9A and RM-9AN (Norquay)	$242.13 per m2
RM-9BN (Joyce-Collingwood)	$43.72 per m2
RM-10 and RM-10N (Joyce-Collingwood)	$186.26 per m2
RM-11 and RM-11N (Grandview-Woodland)	$41.71 per m2

Zoning District	Affordable Housing or Amenity Share Cost
RM-12N (Grandview-Woodland)	$41.71 per m2
I-1 (Mount Pleasant)	$130.68 per m2 (to a max FSR of 4.5 above 3.0 FSR)
I-1A (Mount Pleasant)	$130.68 per m2 (to a max FSR of 5.0 above 3.0 FSR)
I-1B (Mount Pleasant)	Level 1 - $130.68 per m2 (to a max FSR of 5.0 above 3.0 FSR) Level 2 - $588.85 per m2 (to a max FSR of 6.0 above 5.0 FSR)
I-3 (False Creek Flats)	$130.68 per m2
IC-2 (Burrard Slopes)	$130.68 per m2 (to a max FSR of 4.5 above 3.0 FSR)
RT-7 and RT-9 (site area from 317 m² up to but not including 464 m²)	$32.29 per m2
RT-7 and RT-9 (site area from 464 m² up to but not including 557 m²)	$699.65 per m2
RT-7 and RT-9 (site area from 557 m² up to but not including 623 m²)	$1,506.95 per m2
RT-7 and RT-9 (site area of 623 m² or greater)	$1,506.95 per m2
FSD	$1,506.95 per m2

Note: The draft by-law includes the recent amendments to Schedule F regarding the RT-7, RT-9 and FSD District Schedules – but does not propose an increase for them for 2025.

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-property-development/annual-inflation-index.aspx.