



## **Committee of the Whole Report**

### **For the Meeting of September 6, 2018**

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**To:** Committee of the Whole **Date:** August 21, 2018  
**From:** Jonathan Tinney, Director, Sustainable Planning and Community Development  
**Subject:** Proposed Inclusionary Housing and Density Bonus Policy

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### **RECOMMENDATION**

That Council:

1. Consider the draft Inclusionary Housing and Density Bonus Policy and direct staff to undertake further consultation with stakeholders.
2. Adopt the updated affordable housing targets and levels of affordability to guide community amenity contribution negotiations, and incorporate these in the Victoria Housing Strategy to be updated in Quarter Four of 2018.
3. Direct staff to further explore pre-zoning by consulting with stakeholders, including the Community Association Land Use Committees.

### **EXECUTIVE SUMMARY**

The purpose of this report is to present Council with a draft Inclusionary Housing and Density Bonus Policy based on new economic analysis, updated affordable housing targets and a jurisdictional best practice review. The recommended policy, while being grounded in the economic principles of the current density bonus policy, is now proposed to place greater prioritization on on-site affordable rental units over other amenities. Based on Council direction, the updated policy no longer anticipates the potential for additional density beyond current Official Community Plan maximums in support of additional affordable housing. Staff recommend that the policy apply to strata residential rezoning applications that are seeking bonus density and exclude 100% purpose built rental projects; projects with heritage conservation contributions with equal, or greater, value to that of delivering the affordable units; and projects that do not include residential use.

The policy is focused on realizing a targeted percentage of between 10%-15% of total units as on-site secured rental housing at levels of affordability that commensurate with the updated City of Victoria housing targets. Staff recommend that public engagement be conducted on the draft policy with the aim to have a final policy back to Council for consideration in the fourth quarter of 2018.

### **PURPOSE**

The purpose of this report is to seek direction from Council on a draft Inclusionary Housing and Density Bonus policy, along with updated affordable housing targets that together will best meet Council's objectives in achieving affordable housing units in projects.

## BACKGROUND

A key objective of Victoria's *Strategic Plan, 2015 - 2018*, is to Make Victoria More Affordable. The Mayor's Task Force on Housing Affordability was assembled to strategize on how to activate that objective, and inform the subsequent *Victoria Housing Strategy 2016 - 2025*, which was approved by Council on June 16, 2016. A supporting action under the Encourage Diversity category of the Strategy is to create an inclusionary housing density bonus policy. The *City of Victoria Density Bonus Policy* was developed and approved by Council on October 27, 2016.

On July 21, 2017, Council passed a motion directing staff to replace the City of Victoria's *Density Bonus Policy (2016)* with an Inclusive Housing and Community Amenity Policy. On November 23, 2017, staff requested additional resources required to undertake this work including a budget to hire a consultant to conduct economic analysis and additional staff resources, along with other items remaining in the Housing Strategy. Council approved this funding request in January 2018.

On March 8, 2018, Council passed a motion directing staff to pursue the following strategic approaches in developing a new Inclusionary Housing and Density Bonus Policy:

- establish precise affordable housing targets and levels of affordability to guide community amenity contribution negotiations;
- prioritize City objectives for community amenity contributions given limits on bonus density
- move to a negotiated approach to amenity contributions, rather than the fixed-rate over a certain threshold established
- direct staff to consider pre-zoning areas of the City (using bonus density zoning) for affordable housing.

Council directed staff to not consider densities beyond those envisioned in the Official Community Plan in the development of the new policy. Staff retained Coriolis Consulting on May 9, 2018, to update the financial analysis that informed the *Density Bonus Policy (2016)*, and analyse the viability of adopting a new density bonus policy based on inclusionary housing principles. Concurrently, staff have conducted a jurisdictional review of inclusionary housing best practices, and have updated the City's affordable housing targets that will help define the units to be encouraged through the new policy.

## ISSUES & ANALYSIS

### 1. Current Density Bonus Policy

The City of Victoria last updated the Density Bonus Policy in October 2016 with a fixed-rate community amenity contribution (CAC) target for specific types of projects. The fixed-rate approach met Council's objectives of providing greater transparency and cost predictability for new development. As outlined in a March 8, 2018 Committee of the Whole report, the current policy has secured community amenity contributions since 2016 in a variety of forms. Below is a summary of public amenities and contributions secured by the City to support new growth and development during 2016 and 2017.

	Heritage Improvements	Contributions In-Kind and to Reserve Funds	Affordable Rental and Supportive Housing Units	Market Rental Units
Total	\$5,100,000	\$3,086,000	97	359

There are currently 13 rezoning proposals in the pre-application phase that may see further community amenity contributions secured in 2018.

While the current Density Bonus has supported some of Council's policy objectives, examination of the policy and its application over the past two years has indicated some limitations. These include:

- lack of specific focus on affordable housing which places contributions in competition with other amenities
- land lift values generating relatively small CAC targets for some projects
- lack of uptake of the fixed-rate, coupled with fixed-rates which are no longer reflective of current market conditions
- no proposals for 10% additional density above current OCP limits for affordable housing.

## **2. The City of Victoria's Affordable Housing Targets**

As an initial step toward developing a new policy that best meets Council's objectives, Staff have revisited the affordable housing targets included in the 2016 Housing Strategy to ensure that the policy's affordability levels are aligned with current household data and population projections.

### **a) Existing Targets**

Based on the 2010 income data published in the 2011 Census, the Victoria Housing Strategy sets out the City of Victoria's targets for provision of new housing supply that is affordable to households earning between \$20,000 and \$50,000 per annum. Specifically, the strategy estimates that 450 affordable rental units for families earning between \$20,000 and \$50,000 per year, and 800 units for singles earning between \$20,000 and \$30,000 per year, will be required between 2016 and 2025.

Affordability is defined in the strategy as housing that costs less than 30% of gross household income. The Strategy recognizes that market mechanisms will not deliver housing affordable to this income range without government intervention, while housing for those earning \$20,000 or less will be directly funded through the programs of senior levels of government.

### **b) Changing Economic Context**

The economic context has changed substantively in the time since these targets were established. Changes include:

- average rents have increased 9% between 2010 and 2015, and a further 13% between 2015 and 2017
- average household incomes increased 16% in the City of Victoria between 2010 and 2015
- population growth for the City of Victoria has reached 1.4% per annum (prior targets assumed 1% growth)
- construction costs have accelerated.


Market rents that are currently being commanded in new purpose-built rental projects are significantly higher than those assumed in the 2016 Housing Strategy. Coriolis has estimated that the rents charged for newly constructed rental units and the income required to afford such units in the City of Victoria are as follows:

Unit Type	Average Rent/month	Income Required @ 30% of Gross
Studios	\$ 1,300	\$ 52,000
1-Bedroom	\$ 1,650	\$ 66,000
2-Bedroom	\$ 1,925	\$ 77,000
3-Bedroom	\$ 2,400	\$ 96,000

This data indicates that policy interventions or incentives will be required for new constructed rental units to be affordable for those individuals earning up to \$52,000 or below and families earning as much as \$96,000 per year.

### c) Recommended Targets

To better reflect the evolving economic context, Staff recommend that the City of Victoria adopt housing targets that align with the housing demand estimates developed by the Capital Regional District (CRD) in 2018. The following table, based on the CRD estimates, are the City of Victoria's recommended housing targets broken down by affordability, classification (social housing, below market, and ownership etc.) and unit type (single or family).

	Very Low Income	Low Income	Low to Moderate Income	Moderate	Above Moderate
Income	< \$20k/yr.	\$20-35k/yr.	\$35-55k/yr.	\$55-85k /yr.	>\$85k/yr.
Rent	Less than \$500 per month	\$500 to \$875 per month	\$875 to \$1,375 per month	\$1,375 to \$2,125 per month	More than \$2,125 per month
Single	29	34	40	161	152
Family (2-bed+)	7	9	10	40	38
Total	36	43	50	201	190
					
<div>Supportive and Social Housing</div> <div>Below Market Rental</div> <div>Market Rental</div> <div>Below Market Ownership</div> <div>Ownership</div>					

CRD income and housing targets align well with the targets established in the Housing Strategy (updated to 2016 values); and as such, Staff recommend that the City align its targets going forward with those laid out by the CRD. This would have the effect of establishing a target for the provision 124 units of "below market rental" housing per annum. These would be broken down thusly.

- 74 singles, affordable to those earning \$20-55k/yr.
- 50 family units (2-bed+), affordable to those earning \$35-85k/yr.

The 124 "below market rental" unit target represents approximately 20% of the total 520 units anticipated for long-term annual housing demand as forecasted by the CRD. The demand from the lowest and high side of the affordability spectrum will be fulfilled by senior levels of Government and market rentals, respectively. The inclusive housing and density



bonus policy, presented in this report, has been calibrated to deliver on the affordability metrics and typology of these recommended targets.

### **3. Inclusionary Housing - Jurisdictional Review**

Staff carried out a jurisdictional review of inclusionary housing and bonus density policies currently in practice in British Columbia (See Attachment A). Currently, the City of Richmond, the City of Vancouver and the City of North Vancouver are among the municipalities in the province that employ inclusionary housing policies. The City of North Vancouver is currently exploring the possibility of replacing their current Density Bonus policy that applies to strata residential rezonings, with an Inclusionary Housing policy. The recommendations that arose from the review include:

- encourage the management, lease or sale of units by non-profit housing organizations
- the City can play an important role in facilitating successful private and non-profit partnerships
- set unit mix targets (studio, 1, 2 and 3 bedroom)
- set minimum unit size targets
- allow for flexibility to provide clustered or scattered units in strata developments
- provision of units on-site recommended, with limited exceptions for off-site unit provision
- annual monitoring and adjustment of target contributions to ensure relevance to market realities are best practices
- grace periods and phased-in approaches that increase target contributions over time are a best practice.

### **4. Workshop with Urban Development Institute Members**

On August 1, 2018, members of the Urban Development Institute (UDI) were invited to participate in a workshop with City staff and the consultant to discuss the inclusive housing approach, preliminary financial analysis, and to provide feedback on emerging policy directions (summarized in Attachment B). Participants requested further consultation be undertaken once the draft policy has been presented to Council, and requested specific consultation with non-profit housing providers regarding management of units and Community Association Land Use Committees (CALUC) to ensure that the policy is fully understood. The policy recommendations that arose from the workshop include:

- option of affordable home ownership
- option to sell, lease or contract the management of units to experienced non-profit housing operator
- a cash-in-lieu option is important for projects that cannot accommodate on-site affordable units.
- option to transfer and consolidate inclusive units to off-site location
- option to cluster units within the building to allow air space parcel and/or efficient external property management
- grandfathering in all applications that are currently in pre-application phases.

### **5. Results of Financial Analysis and Recommended Policy Elements**

Coriolis has concluded that given recent increase in land values, it is financially viable for strata residential projects seeking bonus density to provide on-site affordable rental housing units instead of contributions toward other amenities. The amount of affordable housing that can be provided is dependent on the required rents, permitted rent increases over time, and the unit size and mix of affordable housing. The deeper the affordability in the inclusionary units, the lower the number of units that will be viable. The amount of affordable housing that is viable (as a share of total units) is higher for rezoning applications in the Core Area than of projects outside of the Core Area. This

is primarily due to projects in the Core Area being eligible for more bonus density than projects outside the Core Area. Any affordable housing requirements will reduce, or eliminate, the opportunity for contributions toward other amenities.

The consultant has recommended basing the value of the increase in density between the OCP base density, and the maximum OCP density, rather than on the increase in permitted density beyond existing zoning for the following reasons:

- the additional density permitted at the base OCP density is often required to make sites financially viable for redevelopment
- the City's existing amenity contribution system calibrates amenity contributions based on the value of bonus density between the base OCP density and the maximum OCP density, not on the value of the increased density beyond current zoning
- the OCP base density allows for a uniform inclusionary housing target, rather than multiple targets for the variety of zoning districts in each OCP designation, which each hold different existing permitted densities.

Under current market conditions, and the maximum densities permitted in the OCP, it is estimated that market rental projects cannot provide amenity contributions such as affordable housing units. In order to prevent a potential reduction in the pace of new rental housing development in the City, it is recommended that new purpose-built rental projects will not be required to provide affordable rental units.

The key findings from the Coriolis's Financial Analysis (Attachment C), the jurisdictional review of best practices in other municipalities, and the updated affordable housing targets have each helped inform the draft inclusive housing and density policy.

#### **a. Consultant Recommendations and Draft Policy Elements**

The draft Inclusive Housing and Density Bonus Policy (Attachment D) has been developed to help encourage the supply of affordable rental housing within new strata developments in the City of Victoria. The Policy is focused on translating the additional value generated through the rezoning process into onsite secured rental housing that meets the affordability objectives outlined in Victoria's Housing Strategy. The strategy is further aligned with the City's family housing objectives, ensuring that a full 20% of units generated through the policy will be suitable for Victoria's working families and units be in the affordable range of "Below Market Rental".

Staff have sought to synergize the recommendations from the Coriolis analysis with Council direction and contemporary economic realities. The Policy has been developed using the following Core principles:

- CAC expectations will be reflective of current market conditions and consistent with economic principles of the current density bonus policy
- prioritization of on-site affordable rental units over other amenities
- a set percentage of inclusive units will be targeted at defined levels of affordability
- additional density (10% above current OCP maximums) will no longer be considered as part of the policy.

The table below demonstrates the alignment between the consultant's recommendations, jurisdictional review, and the recommended Inclusive Housing and Density Bonus Policy.

Recommendations	Draft Policy Elements
<p>Coriolis recommendation:</p> <ul style="list-style-type: none"> <li>Clearly define the type of affordable housing that is required, including tenure (affordable rental or affordable ownership), maximum rents by unit type, the mix of unit types, and minimum unit sizes.</li> </ul> <p>Jurisdictional Review recommendation:</p> <ul style="list-style-type: none"> <li>Set unit mix targets (studio, 1, 2 and 3 bedroom).</li> <li>Set minimum unit size targets in policy to ensure liveability of units.</li> </ul>	<p><b>Affordability</b></p> <ul style="list-style-type: none"> <li>80% of CMHC Current Average Rents for the City of Victoria at the time of the application.</li> <li>80% of CMHC Average Rents 2017 <ul style="list-style-type: none"> <li>Studio - \$684</li> <li>1-bed - \$793</li> <li>2-bed - \$1,058</li> <li>3-bed - \$1,374</li> </ul> </li> </ul> <p><b>Target Unit Mix</b></p> <ul style="list-style-type: none"> <li>Studio - 45%</li> <li>1-bed - 35%</li> <li>2-bed - 15%</li> <li>3-bed - 5%</li> </ul> <p><b>Unit Tenure</b></p> <ul style="list-style-type: none"> <li>Affordable Rental</li> </ul> <p><b>Unit Size</b></p> <ul style="list-style-type: none"> <li>Aligned with BC housing design guidelines target unit sizes:</li> <li>Studio - 33 m<sup>2</sup></li> <li>1-bed - 49 m<sup>2</sup></li> <li>2-bed - 67 m<sup>2</sup></li> <li>3-bed - 86 m<sup>2</sup></li> </ul>
<p>Coriolis recommendation:</p> <ul style="list-style-type: none"> <li>Identify the types of rezonings that will be required to provide affordable housing units.</li> <li>Include strata residential rezonings that are seeking the bonus density available in the OCP.</li> <li>Rental projects, heritage projects and non-residential projects should not be required to provide affordable housing units (assuming the project is not seeking density beyond the current OCP maximum).</li> </ul>	<p><b>Policy Application</b></p> <ul style="list-style-type: none"> <li>Strata residential rezonings that are seeking bonus density.</li> </ul> <p><b>Policy Exemptions</b></p> <ul style="list-style-type: none"> <li>100% purpose built rental projects.</li> <li>Projects with heritage contributions with equal or greater value to that of delivering the inclusive rental units.</li> <li>Projects that do not include residential use.</li> </ul>
<p>Coriolis recommendation:</p>	<p><b>Target Set Aside Percentages</b></p> <ul style="list-style-type: none"> <li>Core Residential: 15% of Total Units</li> <li>Other Designations: 10% of Total Units</li> </ul>

Recommendations	Draft Policy Elements
<ul style="list-style-type: none"> <li>• Set a specific target for the amount of affordable housing for each project based on a targeted level of affordability.</li> <li>• At 80% of CMHC average rents (Scenario 1) consider maximum affordable housing targets of: <ul style="list-style-type: none"> <li>○ up to 15% of total units at rezonings in the Core Area;</li> <li>○ up to 10% of total units at rezonings outside of the Core Area.</li> </ul> </li> </ul>	
<p>Coriolis recommendation:</p> <ul style="list-style-type: none"> <li>• Determine the approach to managing the affordable housing units over time to ensure that the units are being made available to the intended income groups.</li> </ul> <p>Jurisdictional review recommendation:</p> <ul style="list-style-type: none"> <li>• That the City encourage and/or incentivize the management, lease or sale of units to non-profit housing organisations and to facilitate these partnerships.</li> </ul>	<p><b>Management Of Units</b></p> <ul style="list-style-type: none"> <li>• The policy strongly encourages partnerships with non-profit housing organizations, for management, lease or purchase of inclusive units.</li> </ul>
<p>Coriolis recommendation:</p> <ul style="list-style-type: none"> <li>• Identify the circumstances in which cash-in-lieu of affordable housing units will be considered and the amount of the cash-in-lieu contribution per unit.</li> <li>• The cash-in-lieu amount be calibrated to be financially equivalent to providing the affordable units within the project. The cash-in-lieu amount will need to be adjusted periodically to reflect changes in market conditions.</li> </ul>	<p><b>Alternative Cash In Lieu Provision</b></p> <ul style="list-style-type: none"> <li>• A cash contribution of \$150,000 per affordable housing unit in lieu of the delivery of onsite affordable rental units, may be considered for projects delivering less than 40 net new strata units.</li> </ul>
<p>Coriolis recommendation:</p> <ul style="list-style-type: none"> <li>• Identify the total net new strata unit threshold under which cash in lieu contributions are accepted and above which the provision of affordable rental housing units are expected.</li> <li>• The unit threshold be related to the minimum amount of units that are viable for management by non-profit housing providers in Victoria.</li> </ul> <p>Jurisdictional review recommendation:</p>	<p><b>Unit Threshold</b></p> <ul style="list-style-type: none"> <li>• Projects delivering 40 or more net new strata units will be expected to contribute onsite affordable rental units. Core Residential area targets a maximum of 15% of total units, and would result in a maximum of 6 onsite affordable rental units delivered. Other designations target a maximum of 10% of total units, and would result in a maximum of 4 onsite affordable rental units.</li> </ul>



Recommendations	Draft Policy Elements
<ul style="list-style-type: none"> <li>Consult with non-profit housing organizations to determine minimum unit threshold required for management viability.</li> </ul>	
<p>Coriolis recommendation:</p> <ul style="list-style-type: none"> <li>Identify the circumstances in which applicants will be provided the opportunity to negotiate a lower affordable housing contribution if site specific circumstances mean the project cannot meet the inclusive unit target.</li> </ul>	<p><b>Hardship Clause</b></p> <ul style="list-style-type: none"> <li>The City will consider negotiating a different (lower) percentage in cases where the applicant can demonstrate an extreme financial hardship whereby the development viability is compromised.</li> </ul>
<p>Coriolis recommendation:</p> <ul style="list-style-type: none"> <li>Ensure that all stakeholders (property owners, real estate industry professionals, developers, etc.) are aware of any proposed changes to the existing policy. In addition, developers should be given significant notice before any changes are implemented. This will give applicants that have already purchased property the opportunity to make an application under the existing policies without facing the financial impact associated with the affordable housing requirement.</li> </ul> <p>Jurisdictional review recommendation:</p> <ul style="list-style-type: none"> <li>Grace periods and phased in approaches that increase target contributions over time are a best practice.</li> </ul>	<p><b>Grace Period</b></p> <ul style="list-style-type: none"> <li>Applications received up to three months from the adoption date will be grandfathered under the previous Density Bonus Policy requirements.</li> </ul>
<p>Coriolis recommendation:</p> <ul style="list-style-type: none"> <li>Monitor the impact of any affordable housing requirement on the pace of development and make changes as-needed if the requirement is negatively affecting the viability of new projects. In addition, the City should monitor changes in market conditions and adjust any affordable housing requirements over time.</li> </ul> <p>Jurisdictional review recommendation:</p> <ul style="list-style-type: none"> <li>Monitor contribution targets annually and adjust as needed to align with market realities are best practice.</li> </ul>	<p><b>Monitoring And Update</b></p> <ul style="list-style-type: none"> <li>Budget for regular updates and reviews by third party consultant - Recommended on a yearly basis.</li> </ul>

## **6. Exploring a pre-zoning approach to securing on-site affordable units**

As directed by Council, staff have been working with the consultant to determine the viability of pre-zoning specific areas of the city with new zoning that provides opportunities for additional density for affordable and/or purpose-built rental as-of-right. The foundation of the consultants pre-zoning analysis will be drawn from the *Financial Analysis for Density Bonus and Affordable Housing Policy* report. Staff anticipate that the consultant will complete the analysis in the fourth quarter of 2018. Staff will report back to Council on the benefits and implications of pursuing a pre-zoning approach, and the areas where it could be viable. Staff's update of the City's affordable housing targets and jurisdictional review of inclusionary housing best practices are complete and will inform this work going forward. Following the consultant's report back, staff will seek input from the Community Association Land Use Committees and other stakeholders, and aim to bring a report back to Council to follow soon thereafter.

### **OPTIONS & IMPACTS**

#### **Option 1 — Consult on Draft Policy and Explore Pre-Zoning (Recommended):**

Staff recommend that Council endorse the parameters of the draft policy but direct staff to conduct further consultation with stakeholders. There are a number of key aspects to the draft policy which would benefit from further consultation with stakeholders to answer outstanding questions including:

- how to best manage units resulting from the new policy, and encourage non-profits to work in partnerships with developers
- understanding the viable threshold for effectively and efficiently managing inclusionary units.

#### **Option 2 – Adopt Draft Policy as Interim Guidance**

Council could direct staff to adopt the Draft Policy as a guiding document for rezoning and land lift negotiations under the existing policy. This would allow for the policy to come into partial effect, providing guidance to applicants and staff while staff undergo recommended additional consultation. This consultation may lead to further refinement of the policy prior to final adoption.

#### **Option 3 – Maintain Current Density Bonus Policy but update fixed rates to current market conditions**

If the fixed-rate target in the Current Density Bonus Policy were increased to reflect current market conditions, higher Community Amenity Contributions could result. Coriolis has estimated that the updated fixed-rate target rate would be above \$40 per sq. ft.; a significant increase from the \$5 - \$12 per sq. ft. included in the current policy.

#### *2015 – 2018 Strategic Plan*

This report supports Objective 6: Make Victoria More Affordable by revisiting a 2015 action to “look at zoning, bylaws, and specifically inclusionary zoning.”

#### *Impacts to Financial Plan*

Council allocated budget to support this work as part of the 2018 budget process. As this policy will require on-going monitoring, there may be an impact on future financial plans to accommodate annual monitoring and updates to the policy targets and financial analysis. It is estimated that

retaining a third party economic consultant would require an annual budget of approximately \$35,000 starting in 2020.

Collection of cash-in-lieu payments for smaller projects will provide additional revenue to support the Victoria Housing Reserve Fund applications. The specific amount of impact on the fund would be market dependant and is unknown at this time. Further analysis on specific impacts could be undertaken after the policy has been in effect for a defined period, likely a year.

#### *Accessibility Impact Statement*

There are no impacts on accessibility associated with the recommendations contained in this report.

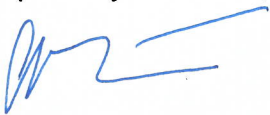
#### *Official Community Plan Consistency Statement*

The proposal is consistent with the OCP, particularly Chapter 13, Housing and Homelessness; and the Density Bonus policies (19.7 – 19.9).

### **CONCLUSIONS**

Council has directed staff to replace the *City of Victoria's Density Bonus Policy* (2016) with a new policy that will better meet the City's affordable housing objectives. Staff have developed a recommended policy that will fulfil Council's objective of delivering on-site affordable housing through residential strata rezoning in cases where additional density is being sought.

Respectfully submitted,

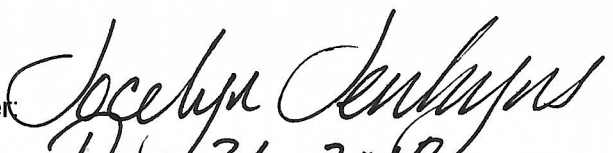


Jesse Tarbotton  
Senior Planner, Housing Policy  
Community Planning Division



Jonathan Tinney, Director  
Sustainable Planning and Community  
Development Department

Report accepted and recommended by the City Manager:

  
Date: Aug 31, 2018

#### **List of Attachments:**

- Attachment A: Inclusive Housing Jurisdictional Review
- Attachment B: Urban Development Institute Workshop
- Attachment C: Financial Analysis for Density Bonus and Affordable Housing Policy (Draft)
- Attachment D: City of Victoria Draft Inclusionary Housing and Density Bonus Policy