



## Committee of the Whole Report

### For the Meeting of April 11, 2019

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**To:** Committee of the Whole **Date:** April 5, 2019  
**From:** Andrea Hudson, Acting Director, Sustainable Planning and Community Development  
**Subject:** Inclusionary Housing and Community Amenity Policy

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### RECOMMENDATION

That Council:

1. Adopt the Inclusionary Housing and Community Amenity Policy, 2019.
2. Direct staff to:
  - a) Apply the Inclusionary Housing and Community Amenity Policy, 2019 to rezoning applications received after April 11, 2019;
  - b) Issue an Expression of Interest to non-profit housing and government agencies to purchase and/or operate inclusionary housing units;
  - c) Monitor the requirements for staff resources needed for policy implementation, administration and monitoring and report back in one year with requests for additional resources as needed;
  - d) Report back on policy results in three years following policy implementation (2022).

### EXECUTIVE SUMMARY

The purpose of this report is to present Council with an updated Inclusionary Housing and Community Amenity Policy informed by extensive stakeholder feedback, new financial analysis, an updated jurisdictional review, and recent Council direction, as well as to seek Council approval on staff's proposed implementation plan. In Canada, *Inclusionary Housing* is a type of municipal policy that encourages developers to provide a portion of their new market housing projects at affordable rates. The City of Victoria's policy provides a guide for City officials and staff, applicants, and residents to negotiate for contributions that help remedy some of the potential negative impacts created by increased residential densities in new market strata developments. Specifically the policy encourages the supply of on-site affordable units in large projects, and through cash-in-lieu contributions to the Victoria Housing Reserve Fund from small and moderately sized projects. To preserve and enhance the liveability of neighbourhoods, a portion of cash-in-lieu contributions are also targeted for local amenity reserve funds for community use.

### PURPOSE

The purpose of this report is to present Council with an updated Inclusionary Housing and Community Amenity Policy, and to seek direction on implementation.

## BACKGROUND

Like many municipalities in Canada and particularly in British Columbia, the City of Victoria is facing an affordable housing crisis. There is demonstrated need for more housing affordability and choice across the housing spectrum. For many people in Victoria, finding an affordable, safe and suitable rental home is becoming increasingly challenging, while saving for a down payment to enter into homeownership is even further out of reach. Rates of homelessness in the Capital Region continues to rise, with 1,525 individuals identifying as experiencing homelessness in the 2018 Point in Time Count. The City has been inundated with stories of businesses being unable to find or retain employees, as the costs of living are much higher than average incomes. The vacancy rate in the metropolitan area for primary rental market increased slightly in 2018 but remains very low at 1.1%, while the rate for three-bedroom units was unable to be determined due to the extremely limited stock. Households in their family formation years of 30 to 45 years old, continue to move outside of the City of Victoria, most likely due to the lack of affordable or attainable family appropriate housing. The barriers into entering homeownership continue to rise. In 2018, the benchmark condominium value of a condominium was \$501,500, which is over 700% of the annual median household income in Victoria's metropolitan area. The limited supply and rising costs of rental housing as well as increasing barriers to entry into homeownership represent significant impediments to the social and economic well-being of the community.

New development, especially new market condominium projects, provides needed housing supply to accommodate future growth; however, it does little to address housing affordability. Additionally, residential growth in the City of Victoria exacerbates the need for new affordable housing that meets the needs of residents, as well as places increased pressures on existing community amenities. The City of Victoria has a selection of mechanisms to address housing need across the spectrum. One tool to mitigate the potential negative impacts of increased residential densities in new development includes an inclusionary housing policy that encourages the supply of new affordable housing, as a portion of the residential units in new multi-unit and mixed-use market strata developments. However, it has to also be recognized that individual projects may not be able to bear the full cost of dealing with a larger social and economic problem of housing shortage. Therefore, it is important to balance the economic viability of new development with the need for affordable housing.

On July 21, 2017, Council passed a motion to replace the City of Victoria's *Density Bonus Policy (2016)* with an Inclusionary Housing and Community Amenity Policy. On March 8, 2018, Council clarified that the City should pursue several strategic approaches in developing the new policy. The City retained Coriolis Consulting in May 2018 to update the financial analysis that informed the original *Density Bonus Policy (2016)*, and to analyse the viability of developing a policy based on inclusionary housing principles.

On September 6, 2018, Council considered a draft Inclusionary Housing and Density Bonus Policy and provided the following directions:

- Consider two options for defining bonus density, either from the base density in the OCP or density in the zoning bylaw;
- Consult on the decreased project size threshold, which identifies when the city considers cash community amenity contributions in lieu of on-site affordable housing; and
- Return with a final policy to take effect no later than March 31, 2019.

On November 8, 2018, Council provided further direction on the Inclusionary Housing and Density Bonus Policy:

1. To negotiate an affordable housing component in rezoning applications for new strata housing received from that date forward, using the draft Inclusionary Housing and Density Bonus Policy as guidance.
2. That consultation on the draft policy should take the form of a working group consisting of:
  - a. rental housing advocates
  - b. non-market housing providers
  - c. Community Association Land Use Committees, and
  - d. members of the development community;
3. To request that BC Assessment provide data on land values and land appreciation in the City of Victoria over the past decade.

On November 22, 2018, Council directed staff to negotiate community amenity contributions for all strata projects in every designation in the city greater than 10 units.

## **ISSUES & ANALYSIS**

An updated Inclusionary Housing and Community Amenity Policy has been developed for Council's consideration, appended to this report in Attachment A. Information used to update this policy is as follows:

### **1. Statutory Context**

Like nearly all municipalities in British Columbia, the City of Victoria is legislated under the *Local Government Act* (LGA). Section 482 of the LGA allows municipalities to establish zones with two or more levels of density: a base density which is permitted as of right and higher density level(s) which can only be obtained if certain amenities are provided. The amenities that can be required as a condition of higher density may relate to provision of affordable or special needs housing, heritage preservation, or other community amenities. Exact nature and level of amenities required has to be established in the zoning bylaw and may vary depending on particular circumstances of each site or proposed project. However, a policy setting out anticipated levels of the amenities that are expected as part of each project would assist the City, developers and the community in understanding what is generally expected given the existing housing and affordability conditions in Victoria.

Smaller developments may not be able to provide in-kind amenities or affordable housing, or they may not be financially viable to be operated effectively. Therefore, in some instances it may be preferable to accept payment in lieu of amenities and affordable housing with funds allocated to appropriate reserve funds. Those funds can then be used to develop appropriate amenities and affordable housing in other locations in the neighbourhood benefiting from both the economy of scale and possibility of leveraging these funds with grants from other levels of government.

### **2. Jurisdictional Inclusionary Housing Policy and Best Practice Review in British Columbia**

A jurisdictional review of municipal inclusionary housing policies and established best practices in British Columbia was conducted (Attachment B). This included a literature review of municipal policy documents, institutional research and publications as well as interviews with municipal staff. As of March 2019, in addition to Victoria, five municipalities in BC have drafted or enacted inclusionary housing policies: Richmond, New Westminster, the City of North Vancouver, Port Coquitlam and Vancouver. These policies are tailor-made to best suit each municipality's unique contexts, with differences including housing needs and demand, residential land values, supply of land, municipal government capacity and resources as well as length of policy implementation,

among others. However, the common elements in these examples that are supported by research, publications, and legal precedent, establish inclusionary housing policy best practices that are summarized below.

Each policy defines *inclusionary housing units* as on-site affordable housing units, and establishes a targeted amount of inclusionary units expected in new developments relative to the other units. The targets range from 10-30% with various levels of affordability across municipalities, with higher targets attained in municipalities with high relative land values. Best practice appears to be to set targets that suit typical developments in the subject municipality, and for the value of the amenities not to exceed 75% of the increased land value. In most municipalities, staff noted that targets were often not met, and the number of inclusionary units actually created are relatively small compared to the overall rates of new development. In some municipalities, policies apply to rental while others apply only to strata. The biggest challenges stemmed from operational and legal agreements pertaining to affordable rental units within strata buildings. The outcomes of the policy appear to improve the longer the policy is in place, as well as when there are partnerships with non-profit organizations and senior levels of government.

An important finding of the review was the value of involving non-profit housing providers, which has reduced municipal administrative costs and increased the likelihood of achieving intended policy outcomes. Cities appear to play an important role in supporting these partnerships. Additionally, a long-term perspective should be applied to take into consideration the full life cycle costs of the units, including municipal monitoring and operational sustainability. Monitoring the units created and reporting out CACs collected increases transparency and helps residents be aware of the tangible benefits received from new development in their neighbourhood. These best practices and lessons learned have been incorporated into the updated policy wherever possible.

### **3. Density Bonus Policy (2016-2018) Review**

The City of Victoria's *Density Bonus Policy (2016)*, which was in effect from October 2016 – November 8, 2018, set a fixed rate cash-in-lieu CAC target for small and moderate projects, while encouraging a negotiated approach and on-site affordable housing for large and non-standard developments. A review of CACs committed from completed rezonings between 2016 and 2018 showed the following benefits to the community:

#### Committed Community Amenity Contributions, 2016-2018:

- \$1,996,392 in local amenity contributions
- \$1,312,285 in cash allocated to the Victoria Housing Reserve Fund (VHRF)
- \$126,990 in heritage improvements
- 553 units of secured purpose-built rental housing
- 18 on-site market rental units
- 19 on-site affordable rental units

The monetary contributions listed above have been committed to the City through the development approvals process, and are only collected once and if building permit applications are submitted. Additionally, there are currently 15 pending rezoning applications proposing approximately \$11,000,000 in cash CACs, 500 purpose built rental units, and 80 on-site affordable or market rental units. However, these contributions have not been committed until rezoning approval and once committed, are only collected when and if building permit applications are submitted.

Because the policy was only in effect for 2 years, and multi-unit strata developments typically take 4 to 7 years from inception to occupancy, it is not possible to fully measure the impacts of the policy.

However, some successes and challenges have been identified. The *Density Bonus Policy (2016)* was successful in:

- The policy achieved a balance of contributions that achieved multiple objectives, by receiving commitments in the form of monetary contributions to various funds including the Victoria Housing Reserve Fund, and inclusionary units in the form of affordable and market rental units
- Preserving and enhancing heritage buildings, particularly in the downtown area
- Incentivizing the development of a significant stock of purpose-built rental by permitting additional density without requesting CAC payments
- Achieving a balance between predetermined fixed rates for small and moderate projects and a negotiated approach for large projects

The policy was limited in achieving some intended outcomes, including:

- CACs collected were spread across multiple City priorities (e.g. heritage, housing, various local amenities) and several areas in the City, resulting in a smaller impact in each fund/area.
- Fixed rates (the price per square foot charged by the City for additional density) were not regularly updated to reflect current market conditions, resulting in fixed rates that were too low; there was also limited uptake of the fixed rates until the end of 2018
- The policy set a negotiated approach for onsite affordable housing in large projects, however, affordability expectations were not clearly defined which resulted in inconsistent levels and length of affordability achieved
- The policy encouraged onsite affordable units through an incentive to consider 10% additional density above OCP limits. No proposals took up this incentive, which may be due to the limited amount of time that the policy was in place and because achieving maximum density (or higher) is often challenging due to design and zoning limitations, neighbourhood plans, and potential community opposition to higher density developments beyond the OCP.

#### **4. BC Assessment Data**

BC Assessment was asked to provide residential property values in the City of Victoria for the past ten years. This request for data requires a substantial amount of time and resources from BC Assessment, which would not have been able to be provided by March 31, 2019. However, staff have accessed the City of Victoria's inventory of BC Assessment data that is collected and maintained annually. Further Council direction for intended outcomes of using the City's current BC Assessment Data is needed to inform policy analysis as the policy is monitored overtime.

#### **5. Updated Financial Analysis**

Coriolis Consulting produced a draft financial analysis report for the City of Victoria in August 2018 that identified targets for inclusionary units, defined as on-site affordable housing units. The analysis assumes that the amount of on-site affordable housing that can be provided is dependent on the target rents levels, permitted rent increases over time, and the unit size and mix of the inclusionary units. Deeper levels of affordability reduces the number of inclusionary units that can be achieved. Finally, any inclusionary housing contributions negotiated will reduce or eliminate the opportunity for contributions toward other amenities. This financial analysis was updated during the consultation period to consider the following:

- market fluctuations including provincial policies that have cooled the market
- increased construction costs
- adjusted rent levels and family unit targets
- cost of property management for the inclusionary units

- uncertainty about the value of the inclusionary units given their ownership appeal is unknown

Through this analysis, Coriolis determined that the City can reasonably expect the following:

- 10% of the total units or floorspace of new strata development could be inclusionary units in Core Residential and Large Urban Villages
- \$35 per square foot is a reasonable fixed rate cash contribution in the Core Residential and Large Urban Village designations, and
- \$20 per square foot could be the fixed rate in Urban Residential designations

These updated fixed rates are higher than those in the Density Bonus policy that was in place from 2016-2018, which requested \$12 per square foot in the Downtown Core Area and \$5 per square foot outside of the Downtown Core Area.

The finalized updated analysis is available in Attachment C. Following Council direction in September 2018, Coriolis was also requested to provide a separate analysis of the two approaches for calculating bonus density: from densities above those listed in the zoning bylaw or from the base densities in the OCP. These findings are discussed in detail in Section 7, under Key Component 1 below.

## 6. Draft Policy Engagement and Working Group

Since August 2018, a number of meetings with a wide range of stakeholders have been held to gather information and receive valuable feedback on the draft policy. In December 2018, an Inclusionary Housing working group has been struck consisting of 11 peer-appointed individuals representing a diverse range of interests, as well as several additional stakeholders who acted as observers during the working group meetings. Working group member groups are identified in the following table:

Community Representation	Developer Representation
Condominium Homeowners Association	Aryze Developments
Downtown Residents Association	BC Housing
Generation Squeeze	Capital Regional District Housing
James Bay Community Association	Greater Victoria Housing Society
Together Against Poverty Society	Urban Development Institute / GMC Projects
Community-at-Large	

Three working group meetings were held from January to March 2019, at which participants identified priorities, concerns and recommendations related to the draft policy, (Attachment D). At the final meeting, the group workshopped a revised draft policy incorporating each group's feedback and the updated financial analysis.

## 7. The Inclusionary Housing and Community Amenity Policy – Key Policy Components

The updated Inclusionary Housing and Community Amenity Policy contains several key components, each of which has options for Council consideration. This section of the report provides a policy recommendation for each key component of the policy for Council to consider, along with policy considerations and working group feedback where applicable.

## Policy Component 1: Defining Bonus Density

There are two options for calculating and defining bonus density in Victoria: as additional residential density above the base residential density identified in the urban place designation in the OCP; or as additional residential density above existing zoning.

The first approach (calculating bonus density from the OCP base) is currently used by the City. An alternative approach would be to calculate bonus density from the density in listed in the zoning. Depending on the site, the zoned density could be less than, equal to or be of higher value than the base OCP density.

### *Considerations*

Coriolis Consulting provided additional analysis to investigate these two approaches (Attachment E). The analysis looked at nine representative sites in the City that are considered viable for redevelopment and could thus be candidates for bonus density. The analysis found that:

- One site was determined to not be viable with either approach
- Five sites did not show any increased value in the land (and thus no room for additional CAC collection) when bonus density was calculated from zoning instead of OCP base
- Three out of the eight sites did show an increased value when calculating bonus density from zoning.

Overall, the analysis confirmed that calculating bonus density from the OCP base is a reasonable approach for *most* redevelopment sites, because additional opportunities for CACs only exists on some exceptional sites. While the analysis did show that some CACs may be missed with the City's current approach, following feedback from the working group, Coriolis totaled the potential CACs from the two approaches and found that there would be less CACs collected overall should the bonus density be calculated from zoning. The reasons for this are outlined below.

### *Working Group Feedback*

City staff and Coriolis presented information and analysis on the two approaches at all three working group meetings in order to maximize opportunities for feedback and improve the level of understanding on this complex policy component. An additional meeting was held strictly on this topic where interested working group participants could ask specific questions about the analysis. Despite the extensive consultation on this issue, there remains some division amongst stakeholders' preferred policy approach, and so staff weighed the following options that are considered to be feasible:

#### Option 1: Defining Bonus Density from base densities identified in zoning bylaw (zoning)

The City could move to calculating bonus density from base densities identified in the zoning bylaw, however there are several implications to this approach:

- Victoria's Zoning Regulation Bylaw has over 700 unique zones, making the task of setting targets or projecting policy outcomes challenging and arduous to administer
- The availability of sites for development is limited in Victoria and this change would limit the supply of development sites further
- Reduced development would limit the amount of CACs available for collection
- Land values would shift, decreasing values in many sites and increasing values in specific sites that remain development candidates

- These shifts could result in negative impacts on affordability overall, including reducing the supply of all new housing types in the City including rental and affordable housing
- To use a fixed rate CAC approach, the fixed rate needs to be set at a level that is viable for most rezonings, not a rate that works only for specific rezonings. However, some rezonings may be able to make a larger contribution than the fixed rate target. In order to capture the extra value between the zoning and the OCP base density that is created by some rezonings, the City could use a negotiated approach for all rezonings (determined by a land lift analysis rather than a fixed rate).
- A negotiated approach would ensure that the City is capturing the full amount of CAC's. However, it reduces the predictability of policy outcomes and is a less transparent process than fixed rate targets. Additionally it requires contracting an external consultant to conduct a land lift analysis and extends administrative timelines (rezoning applications will take longer).

#### Option 2: Defining Bonus Density from base densities identified in the OCP

The current density bonus system defines bonus density as the increase in residential densities above the base listed in the OCP. This density bonus system has both benefits and limitations, including:

- Due to the variety of zoning regulations throughout the City, there are some exceptional sites that garner additional value between the zoning and the OCP base. In these cases, this density bonus system would not be capturing this increase in value
- For many sites in the City, the base densities listed in the OCP do not provide an incentive to redevelop as the value of these densities match the value under their existing use. In this way, there is low to no value from the zoning to the OCP base
- This method moderately restrains the level of residential development by only encouraging redevelopment when the value of the current use is less than the potential value of redevelopment. There is a finite level of these potential development sites in a built-out city such as Victoria
- The current density bonus system allows the City to align with and set targets for OCP areas, creates simplicity in administration and predictability within the development process.

#### *Policy Recommendation*

Considering the financial analysis provided by Coriolis, the diversity of working group feedback, a comparative analysis and review of the residential densities offered in the *Zoning Regulation Bylaw* and the OCP, and analysis of the considerations listed above, the following blended approach to calculate bonus density is recommended:

1. Establish a new level of bonus density that calculates contributions from zoning to the base density established in the OCP, and apply a fixed rate contribution of \$5 per square foot or less. This fixed rate contribution should not significantly affect the viability of most developments, while still providing the contributions to amenities needed to address the housing and affordability issues. This new level of bonus density (\$5 per square foot or less) would be in addition to current bonus density fixed rate targets (\$35 and \$20 per square foot) that is requested above the OCP base densities.
2. Employ a negotiated approach for exceptional sites to ensure adequate amenities are provided on such sites as part of new development, based on the proposal's ability to pay for those amenities.



3. This approach seeks to strike a balance between following best practice of creating comparable, reasonable and predictable CAC targets and reducing risks of unintended impacts on the creation of new supply across the housing spectrum. It also considers Victoria's unique context by proactively capturing exceptional sites where the general CACs may not be reflective of their development scenarios.

## **Policy Component 2: Policy Approach**

The Inclusionary Housing Working Group provided a significant amount of feedback on and input into an updated policy approach.

Overall, the working group was generally supportive of several policy revisions including:

- Updated targets that reflect current market conditions
- \$5 per square foot fixed rate from zoning to OCP base
- Increased size threshold, where projects of 60 units or greater must contribute inclusionary units, and sites with fewer than 60 units would have the option of providing cash contributions
- The addition of an option to set inclusionary unit targets as a percentage of total floorspace ratio (FSR) rather than a percentage of total units to encourage more family sized units
- A more balanced approach whereby both cash contributions and inclusionary units are strategically targeted

Additional recommendations and concerns received by the working group include:

- Non-Profit Housing Developers would like to see a cash-in-lieu option for large projects (60 units or greater), as contributions through the Victoria Housing Reserve Fund fulfil a current unmet need in new developments and have a greater impact on affordability
- Developers expressed a concern that the fixed rates in Urban Residential were too high and may affect infill housing development. Developers also expressed a desire to see flexibility for other amenities and consideration for densities above the OCP maximums
- CALUCs expressed concern that most large projects would be built downtown, therefore reducing the amount of cash contributions for local amenities for the neighbourhood that will see the most bonus density approved.

### *Considerations*

From consultation and analysis, staff have determined that a fixed-rate approach could be considered for most rezoning projects. However, there will be 'atypical' projects where the fixed-rate targets should not apply. In these instances, a negotiated approach involving economic analysis (a land lift) to determine the proposed development's ability to provide amenities would be expected. Examples of atypical rezoning applications include projects that involve a rezoning from a zone with no residential use, projects that are larger than a city block, or contain buildings eligible for heritage conservation, designation, or are listed on the heritage register.

### *Policy Context*

There has recently been significantly renewed investment in affordable housing by both the federal and provincial governments, through the National Housing Strategy (released November 2017) and Homes for BC: A 30 Point Plan for Housing Affordability in BC (February 2018). The provincial plan has a target of 114,000 new affordable homes across BC over 10 years, with the first program of this plan including secured funding for five projects proposing 588 new homes in the City of Victoria.

During consultation on the draft policy, non-profit housing providers and government funders articulated the importance of municipal capital contributions to new affordable housing developments to leverage investment from senior levels of government. The City's contributions through the Victoria Housing Reserve Fund can often secure project viability. Equity contributions are vital to the creation of new affordable housing development as the funding programs offered by senior levels of government take the form of financing or operational subsidies, rather than grants. The majority of non-profit organisations do not have equity readily available either in the form of land or financial contributions. Municipal contributions in the form of grants fulfil an unmet need, and allows organisations to access more favourable financing rates, which secures the viability of the projects and deepens the levels of affordability of the unit rents as a result.

Staff completed an analysis of the value of monetary contribution allocated to affordable housing grants vs. creating inclusionary housing units to evaluate which would deliver the most affordable housing the most quickly (Attachment F). The analysis suggests that cash contributions would deliver the highest rate of return in the shortest amount of time, while inclusionary housing units would have a more moderate impact.

<b>Consideration</b>	<b>Victoria Housing Reserve Fund</b>	<b>Inclusionary Units</b>
Estimated development time	1 to 7 years	3 to 7 years
Estimated number of units created with \$200,000 investment	6 to 20 units	1 unit
Percentage of Municipal Contribution	3-5% of total project costs	100% of CAC
Number of partners	Many partners	Some partners
Level of Affordability	Very low to moderate incomes	Low to moderate incomes
Risk	Low	Medium
Dependencies	High	Medium
Resources (Time& Cost)	Limited	High
<b>TOTAL IMPACT</b>	<b>High</b>	<b>Medium</b>

Despite this analysis, there remain additional benefits to requiring on-site affordable housing units in some circumstances, including:

- to empower municipalities to create affordable housing in the absence of government funding (should current investment cease),
- to create buildings with a social mix of residents, with low, moderate and high household income and tenure types, and
- to create affordability in areas of the city with high land values.

### *Policy Recommendation*

The updated policy seeks to strike a balance where inclusionary housing targets are set for large projects and cash-in-lieu CACs are accepted for small and moderate projects.

As per the previous policy, the following projects are considered to provide public benefit and can therefore achieve additional residential bonus density without contributing CACs:

- 100% purpose-built secured market rental projects
- 100% non-market residential projects owned by a non-profit or government agency
- Projects with heritage conservation contributions of equal or greater value to that of the community amenity contribution

### Policy Component 3: Inclusionary Housing Options and Expectations

The Inclusionary Housing Policy defines the City's expectations for the number of inclusionary housing units expected to be included in new multi-unit or mixed-use strata residential developments of a certain size seeking bonus density. These inclusionary housing targets assume that:

- The amount of affordable housing that can be provided is dependent on the amount of bonus density achieved, the area of the City, unit tenure, rents and permitted increases, and the unit size and mix.
- The deeper the affordability in the inclusionary units, the lower the number of units that can viably be achieved through this policy.
- Any inclusionary housing contributions negotiated will reduce, or eliminate, the opportunity for contributions toward other amenities.

#### *Inclusionary Housing Targets*

Current financial analysis of the Victoria market revealed that the City could reasonably require 10% of the total units or total FSR of the building to be dedicated to inclusionary housing units in the Urban Core, Town Centre and Large Urban Villages in buildings proposed to be 60 units or greater. The threshold of 60 units is higher than previously contemplated unit thresholds for requiring inclusionary units but is deemed important because the City will be able to:

- Capture larger cash in lieu contributions from the density bonus system to have a meaningful impact to the funds the dollars are allocated to;
- Ensure there are a minimum number of inclusionary units in developments, as economies of scale increase the long-term viability of inclusionary units, decrease property management costs, and allow non-profit housing organizations to purchase and/or manage the units
- Improve alignment with senior government funding programs

#### *Affordability*

There are demonstrated needs for more housing affordability and diversity across the housing spectrum. It is recommended that inclusionary units target the following rents that are affordable to *low to moderate* and *moderate-income* single and family households in Victoria, as outlined below:

	Studio	1 Bed	2 Bed	3+ Bed
Monthly Shelter Costs	\$875	\$1,050	\$1300	\$1,750
Household Income	\$35,000	\$42,000	\$50,000	\$70,000

These rent levels allow for:

- Long term viability of units
- Partnership with non-profit housing operators
- Fulfills housing needs for low to moderate income groups that is not served by other programs

- Avoiding conflict with direct funding programs or rent supplement programs from senior government to very low and low income groups
- Partnerships with other funding programs for low to moderate income households by aligning with BC Housing's low income threshold (Housing Income Limits 2018) and 100% of CMHC average rents in the Victoria CMA in 2018

### *Tenure*

The new policy contemplates affordable homeownership units that are targeted to the moderate income range of the City's Housing Targets (\$55,000 to \$85,000 depending on household size). Partnerships with non-profit housing providers or government agencies are required. Staff recommend leaving these targets flexible, in order to align with other funding programs, such as BC Housing new affordable homeownership programs. Applicants would be required to carry out an economic analysis to determine the number of units provided based on the affordability targets identified by the City.

For both tenure options, family appropriate units are prioritized (10% 3 bed and 20% 2 bed), particularly by allowing applicants to provide a lesser total number of units should they achieve more family sized units that account for 10% of the total FSR in the building.

### *Working Group Feedback*

The revised policy integrated many of the working group's recommendations including:

- Addition of an affordable homeownership option, that allows for flexibility for partnerships with multiple programs while ensuring long term public benefits are achieved
- The option to provide rental units was retained, and the rent levels have been adjusted to:
  - accommodate higher operating costs for both private and non-profit operators
  - align with the City's affordable housing targets
  - align with BC Housing's programs, by aligning with the Housing Income Limits (HILS), a widely used indicator to determine income levels of low income households

## **Policy Component 4: Community Amenity Allocation**

When considering cash in lieu contributions, staff evaluated feedback and City goals and presented to the working group a proposed approach of allocating 50% of cash contributions allocated to the Victoria Housing Reserve Fund, and 50% to amenities, either to the local amenities fund or the Downtown Core Area Public Realm Improvements Fund. In all cases staff recommended including an option for Council to reallocate at their discretion on a case-by-case basis. This allocation will support both affordability and livability as the City grows. The revised policy no longer allocates contributions to the Downtown Heritage Buildings Seismic Upgrade Fund, which has been accruing slowly given only 25% of funds have been directed there. Given the other successful heritage incentives the City currently offers, including the Heritage Tax Incentive Program, heritage grants and considerations for bonus density and zoning variances for heritage conservation, it is recommended that while housing remains a priority, that funds not be directed here for the short term. This reduction will enhance policy outcomes by reducing the number of funds in which contributions are dispersed.

All members of the working group expressed support, in principle, for achieving a mix of cash and inclusionary housing units. CALUC members expressed concern that the allocation in the revised policy would substantially reduce the amount of funding for community amenities in neighbourhoods, and particularly in the Downtown Core Area, which will see the most inclusionary housing units

based on the size and location of development. CALUC members expressed additional concern for the proposal to not direct funds to the Downtown Heritage Buildings Seismic Upgrade Fund. The working group also suggested that more information be provided to clarify how amenities such as parks and recreation centres are funded by the City and how this relates to the policy.

### **Policy Component 5: Option for Economic Analysis**

The draft policy from September 2018 included a “hardship clause”, which has been revised to a section titled “Option for Economic Analysis”, which provides an option to negotiate a different contribution target where site-specific considerations compromise viability, for example when:

- The existing zoning permits a density that is higher than the base OCP density
- The land value under existing zoning is higher than the base OCP land value
- The proposed density is significantly lower than the maximum permitted OCP density.

The cost of the land lift analysis in these circumstances is now proposed to be covered by the applicant rather than deducted from the CAC contribution.

It has to be noted in this context that while it is intended that the new Inclusionary Housing and Community Amenity Policy would be applied to most new developments, it remains a policy rather than a legislative instrument and Council retains discretion when dealing with each proposal on a case by case basis.

### **Implementation Actions**

The following actions related to the Inclusionary Housing and Community Amenity policy will be taken to implement it, should the policy be adopted by Council:

- Issue an Expression of Interest to invite non-profit housing organizations and government agencies to purchase and/or operate inclusionary housing units. This action will allow the City to facilitate partnerships between non-profits, governments and private developers.
- Direct staff to revise the Downtown Core Area Plan (DCAP) as this plan outlines density bonus opportunities and will need to refer to the Inclusionary Housing and Community Amenity policy to ensure alignment.
- Direct staff to monitor the requirements for staff resources for policy implementation, administration and monitoring and report back in one year with requests for additional resources if needed.
- Upon enactment, apply the Inclusionary Housing and Community Amenity policy to all new applications received after April 11, 2019.
- Direct staff to report back on policy results in three years following policy implementation (2021).

## OPTIONS & IMPACTS

### **Option 1: Adopt the Inclusionary Housing and Community Amenity Policy as presented, and Implementation Actions (Recommended)**

Staff recommend that Council endorse the Inclusionary Housing and Community Amenity Policy as drafted to come into effect following the April 11, 2019 Council meeting and direct staff to undertake the policy implementation actions outlined in this report.

### **Option 2: Adopt the Inclusionary Housing and Community Amenity Policy, but allow an option for monetary contributions to be provided in large projects with 60 units or greater**

Given feedback from the non-profit housing representatives on the working group, the information provided in this report, and the shifting political economic context, Council may wish to consider accepting monetary contributions in large projects in order to enhance contributions to the Victoria Housing Reserve Fund. Non-profit housing developers assert that municipal grant contributions to new affordable housing development will better achieve Council's intended policy outcomes of creating the most amount of affordable housing, most quickly.

### **Option 3: Adopt the Inclusionary Housing and Community Amenity Policy, but with amendments to thresholds**

Given feedback from the CALUC representatives on the working group, Council may wish to revise the percentage allocations for the cash-in-lieu contributions. The CALUC representatives had recommended 20-40% be directed to the Victoria Housing Reserve Fund and 60-80%, respectively, be directed to community amenity contribution funds to maintain liveability and off-set impacts of density within neighbourhoods.

#### *2019 – 2022 Strategic Plan*

This work fulfils an action in the 2019-2022 Strategic Plan, under Strategic Objective #3: Affordable Housing, to develop a community amenity contribution policy.

#### *Impacts to Financial Plan*

Council allocated a budget to support this work as part of the 2018 budget process. As this policy will require ongoing monitoring and up-to-date market analysis, there will be an annual impact to future financial plans in the amount of \$35,000 starting in 2020.

Should the annual monitoring require additional policy analysis and/or engagement with stakeholders, this amount would need to be increased.

Collection of cash-in-lieu payments will support the Victoria Housing Reserve Fund applications and community amenities. The specific amount is market and development dependant and is unknown at this time. Given typical development cycles, reporting on actual impacts could be undertaken after the policy has been in effect for a minimum of two years.

#### *Accessibility Impact Statement*

The *Local Government Act* permits density benefits for amenities, affordable housing and special needs housing. As Council's objective for this policy has been focused on achieving affordability, this policy does not pursue bonus density for units adapted for special needs. Council could direct

further work on this if there is a desire to include special needs housing as part of future policy updates.


*Official Community Plan Consistency Statement*

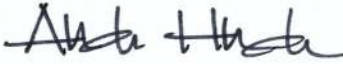
The proposal is consistent with the OCP, particularly Chapter 13, Housing and Homelessness; and the Density Bonus policies (19.7 – 19.9).

**CONCLUSIONS**

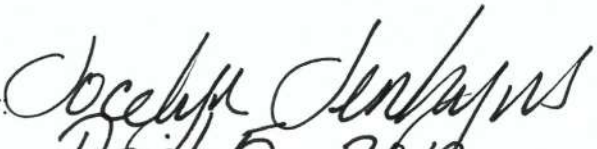
Council has directed staff to replace the *City of Victoria's Density Bonus Policy* (2016) with a new policy that will better meet the City's affordable housing objectives. Staff have developed a recommended policy that will fulfil Council's objective of delivering on-site affordable housing through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

Respectfully submitted,

  
Hollie McKeil, Housing Planner  
Community Planning Division

  
Andrea Hudson, Acting Director  
Sustainable Planning and Community  
Development Department

Report accepted and recommended by the City Manager:

  
Date: April 5, 2019

**List of Attachments:**

- Attachment A: Inclusionary Housing and Community Amenity Policy
- Attachment B: Jurisdictional Inclusionary Housing Policy and Best Practice Review
- Attachment C: Coriolis Consulting Corp - City of Victoria - Financial Analysis for Density Bonus and Affordable Housing Policy - Aug 2018 - Final Version
- Attachment D: Inclusionary Housing Policy and Working Group Consultation Summary
- Attachment E: Coriolis Consulting Corp - Memorandum - Fixed Rate CAC on Rezoning to Base OCP Density
- Attachment F: Assessment of Policy Impacts on Affordability