



## **Committee of the Whole Report**

### **For the Meeting of September 23, 2021**

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**To:** Committee of the Whole **Date:** September 2, 2021

**From:** Karen, Hoese, Director Sustainable Planning & Community Development

**Subject:** **Victoria Housing Reserve Fund Guidelines**

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### **RECOMMENDATION**

That Council direct staff to maintain the current Victoria Housing Reserve Fund guidelines for applications based on gross new units associated with the project and encourage applicants to provide additional rationale where the project is redeveloping existing affordable housing.

### **EXECUTIVE SUMMARY**

Victoria's Housing Reserve Fund (VHRF) is one of the City's primary tools for supporting the development of affordable rental housing. The program offers one-time grants to non-profit housing providers to support the development and retention of affordable housing. The grants cover a small portion of the overall project costs but formalizes project support from the City of Victoria to secure larger funding amounts from senior levels of government.

In March 2021, Council updated the VHRF guidelines, resulting in a reduction in the amount of grant funding any one project could receive, to better distribute funds to support more affordable housing projects. The changes included a reduction to the per unit allocations and the introduction of a maximum grant amount of \$500,000 for any one project.

As part of the March 2021 update, Council directed staff to bring forward options for how the program could consider funding of net-new units as opposed to gross units. The impetus for this motion was to ensure that the City's funding program was not having negative impacts on existing affordable rental housing by encouraging demolition.

In preparing this report staff consulted with non-profits on the potential impacts of modifying the program as well as the role of the grant program when non-profits consider redevelopment of aging properties. All the non-profits described the considerable challenges with delivering projects with deep affordability and the urgent need for project funding. Further, it was noted by representatives that many older buildings are no longer meeting the needs of tenants with organizations viewing redevelopment as a critical tool to deliver the next generation of affordable rental units.

Based on analysis and consultation with housing providers, the funding of gross units is not a primary factor influencing the redevelopment of older affordable housing sites. Instead, the funding

of gross new units ensures that redevelopment is an option to deliver new affordable housing where land use policies, building condition, and land ownership converge to create favourable conditions for a project.

The report recommends that the VHRF continues to fund gross number of new units, while encouraging applications in future intakes to provide additional information on applications involving redevelopment of an older rental property. The report includes an alternate option to fund net-new units only.

## **PURPOSE**

This report responds to the Council motion requesting options to modify the Victoria Housing Reserve Fund program to fund only net-new housing units as opposed gross, while ensuring the guidelines continue to align with the Victoria Housing Strategy.

## **BACKGROUND**

The Victoria Housing Reserve Fund (VHRF) provides financial grants to assist with the development and retention of affordable housing for households with lower incomes, and to help achieve Victoria's affordable housing targets. For example, from 2010 to 2019 the City of Victoria contributed over \$6.8 million in VHRF grants to support the development of 706 new affordable homes within 15 affordable housing projects.

Over the last several years various updates to the VHRF guidelines were completed. In June 2020, Council directed staff to re-prioritize housing security as part of the COVID-19 recovery. Based on this direction staff were directed to support the rapid supply of affordable housing with government partners and non-profit housing providers.

On March 18, 2021, staff brought forward several updates to the Victoria Housing Reserve Fund (VHRF) for Council consideration and Council made the following motions:

1. *Update the Victoria Housing Reserve Fund Guidelines based on the following changes:*
  - a. *Remove reference to funding assistance for affordable home ownership projects.*
  - b. *Amend the Funding Assistance section to:*
    - i. *decrease the eligible funding allocation for different levels of affordability per home;*
    - ii. *add a total funding cap for grant contributions to not exceed \$500,000 per project; and*
    - iii. *include fund eligibility to homes rented at Deep Subsidy, Rent Geared to Income (RGI) and Housing Income Limits (HILs) rates.*
2. *Revise the application process timeline so that grant applications that receive preliminary approval by Committee of the Whole are held for final approval by Council until development approvals are in place.*
3. *Update the Victoria Housing Strategy Phase Two document, page 47, to include the following with respect to Housing Affordability Targets:*
  - a. *Notwithstanding the income targets provided above, to support the expeditious development of affordable housing, proposals which are owned and operated by senior government agencies and non-profit housing providers, where homes are rented at Deep Subsidy, Rent Geared to Income or Housing Income Limit Rates are considered to meet the City's definition of "affordable housing".*

4. ***That the program be modified to take into account the net-new units for housing rather than the gross number of units in the project and that the staff report back with options for program modification.***
5. *That the property tax status of the proposed units be reported to Council when approval is sought.*

All the above changes to the VHRF guidelines are now incorporated except for motion 4, which was added on March 18, 2021, and is the subject of this report.

## **ISSUES & ANALYSIS**

### **1. Potential Grant Modification**

In response to the Council motion on March 18, 2021, staff explored potential modification to the VHRF program to consider net-new housing units rather than the gross number of units. This could be implemented by setting new grant amounts in the VHRF guidelines for replacement units in redevelopment applications as follows:

- a reduced grant amount where replacement units receive less grant funding than net-new units, or
- not funding replacement units at all and only funding net-new units.

In reviewing the potential impacts of this change, staff considered the current housing context, including community need for affordable housing, and capacity of the VHRF. Staff also consulted with local affordable housing providers to understand the impacts of changing the program and the degree to which funding gross new units encourages redevelopment of older rental housing. Both the consultation and analysis indicated various challenges associated with changing program funding to net-new units. The stakeholders also emphasized the need for new affordable housing to address community needs and highlighted that the VHRF grants are important but complementary to other factors such as availability of land, OCP policies, and building condition in formulating a project.

### **2. Need for Affordable Rental Housing**

The housing crisis is excluding many from homeownership and most renters are spending a disproportionate amount of their income on housing. As of 2016, roughly half of Victoria's 27,720 renter households were spending more than 30% of their income on housing. The events of the COVID-19 pandemic appear to have amplified this trend, highlighting the important role of the City in facilitating development of new affordable housing to address the urgent need in the community. A recent report by the Canadian Centre for Policy Alternatives found that 54% of renters in BC reported a loss of income during the pandemic, highlighting the precarious economic position of many renters.<sup>1</sup> At the same time, renters are often more vulnerable to economic shocks with close to 70 per cent of renters in Victoria reliant on a single income and one third of renters in BC report having less than one month's savings in the bank.<sup>2</sup>

- The pandemic has reinforced the urgent need for affordable rental housing, underscoring the important role of the VHRF in supporting the creation of new affordable housing, both replacement housing and net-new housing.

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<sup>1</sup> [BC's housing crisis during the pandemic: A snapshot : Policy Note](#)

<sup>2</sup> [The Daily — Canadian Housing Statistics Program, 2018 \(statcan.gc.ca\)](#) - Table: 46-10-0047-01

### 3. Current Capacity of Program

Over the last several years, senior levels of government have increased funding for affordable housing, resulting in a rise in grant applications to the VHRF. Although the VHRF grants are minor in relation to total project costs, the City's program does help improve affordability and provides an avenue for non-profits to demonstrate project support from the City of Victoria. This local support is valuable for projects looking to secure larger funding amounts from BC Housing and CMHC.

The VHRF grants also help offset some of the capital and soft costs (e.g., consultant fees) that other grants may not be able to cover. Based on the current unallocated balance of \$4,500,000 (including \$400,000 allocated for affordable seniors housing), and funds projected to flow in future years, the Reserve is well positioned to fund projects under the current gross unit funding guidelines.

- The VHRF grants and the City's on-going efforts to support non-profit housing partners are valuable parts of the response to the housing affordability crisis.

### 4. Grant Allocation to Encourage Equitable Distribution

Based on the increased demand for VHRF grants, Council made several shifts to the program to encourage more equitable distribution of funding. On March 18, 2021, Council introduced a maximum grant amount of \$500,000, promoting smaller grant amounts. At this time, Council also adjusted the per unit grant allocations, reducing the amount of funding a studio unit would receive and lowering the per unit grant amount for most unit types. The lower grants will allow the City to support a greater number of applications, helping local projects as they try to tap into funding from senior levels of government.

- Any change in funding to net-new units would translate into a third decrease in funding for non-profits under the program and constrain housing providers at a time when there is an urgent need for any funding to support new affordable housing projects.

### 5. Consultation with Non-Profit Housing Providers

This section of the report summarizes themes identified by housing non-profits and local development consultants when consulted on the impacts of shifting from gross new units to net-new units. Additional notes from consultation are included as part of Attachment A.

#### *Net-new vs gross units*

Several non-profits described the importance of keeping the program simple, highlighting the cumulative negative impacts of adding criteria. By switching to net-new, another constraint is added to the planning and budgeting for new projects, increasing complexity and making it harder to deliver new housing. Also, non-profits described how the number of net-new units achieved in their projects is largely a function of density permitted through the zoning bylaw and land use policies.

The non-profits described the differences between affordable housing and market housing when looking at redevelopment of an older rental property. Where an older affordable housing project is redeveloped, the older units are replaced with a greater number of new affordable units and affordability is retained in most of the new units. Based on robust tenant relocation strategies, existing tenants are relocated to comparable accommodation during redevelopment that meets their needs and are provided the opportunity to return to the new building at their original rents in many cases. In contrast, there is a much greater risk in market rental redevelopments that there

will be a permanent loss of affordable units and tenants typically do not receive the same level of alternate accommodation options.

- A change to fund only net-new units was seen as a constraint that would conflict with the City's land use policies and hamstring organizations looking to deliver much needed affordable housing units on sites at the end of their useful life.

### *Economic feasibility of affordable rental housing*

Several organizations identified rising land and construction costs as having major impacts on the economic feasibility of affordable housing projects. The rising construction costs in the form of labour and materials are making it harder to deliver deep affordability without significant operating subsidies. Also, the soft costs associated with the re-zoning process such as technical studies, revisions of drawings and extensive community consultation all add to the project costs. These non-profit housing projects have limited options to absorb rising costs. Typically, housing providers take on more debt, increasing their mortgage payments and resulting in less affordable rental rates. In some instances, increased costs result in higher rents for the below market units as these units are often the only units where rental rates can be adjusted. But, in other cases higher costs could mean a unit mix where there are fewer units that meet the City's affordability targets.

- All project costs impact the level of affordability a project can deliver, meaning reduction in the grant amounts could exacerbate the already challenging economics of delivering units with deep affordability.

### *Aging building stock*

Several non-profit representatives identified that the aging affordable housing stock is not meeting the needs of tenants and presents significant building maintenance issues. Housing providers indicated that many affordable housing buildings constructed in this era are plagued by long-term water damage and site drainage issues that are difficult to address even with major remediation investments. These water and drainage issues are costly to remediate and difficult to resolve, but also negatively impact quality of life for tenants given persistent mold issues and water damage. For example, the Capital Regional Housing Corporation (CRHC) made extensive efforts to remediate their building on Michigan Street and improve site drainage, but persistent mold and water damage resulted in three units being uninhabitable and 11 vacant with on-going issues.

Housing non-profits highlighted that in the case of aging buildings, larger non-profit organizations often complete building envelope condition assessments to weigh the costs and benefits of renovation and redevelopment to extend the lifespan of buildings where it is cost-effective. However, funding for retrofits is challenging to secure with small pots of money available under different programs, and if a building is under a BC Housing operating agreement, retrofits are not supported once the renovation costs reach 30 per cent or more of the capital value of the building. It was also noted that due to small unit sizes of older buildings, retrofits can often result in a reduction in the number of units and that older buildings typically have fewer amenities and are less likely to meet today's accessibility, safety and energy standards.

- Overall, representatives highlighted that many older buildings are no longer meeting the needs of tenants and funding gross new units maintains opportunities for redevelopment to create the next generation of affordable rental units.

### *Community benefits of new affordable housing*

Non-profit housing providers emphasized the demand for affordable housing and the value associated with new units (net-new and replacement) created via redevelopment. New redevelopment projects are built to higher standards with expectation of a minimum 60-year lifespan, delivering greater energy efficiency and reduced Greenhouse Gases. New affordable housing units provide opportunities to deliver improved safety and quality of life for tenants by ensuring all units have access to fire alarms and elevators. Non-profit representatives also highlighted that new units provide much needed family-oriented units (single-parent families and larger multi-generational families) as well as improved accessibility features to support aging in place. In the context of supportive housing, new builds offer greater benefits in term of security and access allowing for better management of units and less impact on surrounding neighbourhoods. The representatives described how new buildings often include common areas for skills training and social interaction that are rarely possible in retrofits of older hotels.

- In summary, new units improve the safety and quality of life for people living in non-market housing and will offer long-term affordability benefits as they will be managed outside of the market by mission-driven organizations.

### *Access to land*

All non-profit representatives identified rising land costs as a major barrier for affordable housing. The non-profits indicated that their ability to deliver projects with deep affordability is highly dependent on land costs being free based on long-term ownership or where it is contributed by a partner (e.g., City of Victoria). Furthermore, many affordable housing sites owned by local non-profits are approaching the end of their useful life. Non-profit groups described how these projects were built to much lower densities than what is envisioned by the current OCP. Based on the high cost and competitive market to acquire land, redevelopment of aging sites is the most cost-effective way for non-profits to unlock land without major funding increases from government.

Several non-profits highlighted that BC Housing is less likely to fund land acquisition and is encouraging non-profits to leverage their land holdings. In cases of long-term ownership, non-profits can leverage equity in their land holdings (assuming lower debt levels) to achieve favourable borrowing rates that allow for projects to deliver deeper affordability. Also, in projects where there are low land costs there may be greater ability to adapt building form and massing to provide a more neighbourly transition with nearby properties. In contrast, a project with high land costs may need to pursue the maximum density to absorb higher costs.

- In summary, by continuing to fund gross units the City is providing non-profits with flexibility to utilize land at sites reaching the end of their life where land use policies and other conditions align, thereby leveraging a critical asset for the development of new affordable housing units in Victoria.

### *Alignment with senior levels of government funding*

The representatives consulted described how critical BC Housing funding is in supporting the development of affordable housing and suggested the VHRF should be aligned with senior government programs. More specifically, non-profits indicated that BC Housing funds gross new units with supporting criteria to consider if an adequate number of net-new units are delivered. Also, it was highlighted that BC Housing programs look more favourably at redevelopment where projects are reaching the end of their useful life. Because, the VHRF grants cover a small portion of overall project costs, local non-profits indicated that the City's funding program would be most beneficial if

it complemented larger senior government funding programs. Moreover, non-profits highlighted that by funding gross new units the VHRF ensures more flexibility to develop projects that meet the goals of BC Housing & CMHC funding programs.

- Generally, non-profits identified that misalignment with provincial and federal programs would increase the administrative burden for non-profits and would likely only decrease the affordability achieved in cases where grants are reduced.

### *Tenant Relocation Strategies*

All the non-profits consulted highlighted that in cases of redevelopment, non-profits prepare robust tenant relocation plans that often exceed the City's Tenant Assistance Policies. All non-profits described how they provide alternate accommodation with comparable rents in cases of redevelopment. Some of the larger non-profits can accommodate tenants impacted by redevelopment on larger sites or within another building in their portfolio. Also, all representatives highlighted how they make efforts wherever possible to allow tenants the option of returning to the new building at the same rent as before. In some cases, non-profits work with other societies to find alternate accommodation in the same neighbourhood. In the context of supportive housing there are recent examples of non-profits purchasing properties to accommodate tenants impacted by a redevelopment project.

- Overall, the benefits of creating new affordable housing far outweigh the limited tenant displacement risks associated with redevelopment of aging affordable housing sites.

## **OPTIONS & IMPACTS**

### **Option 1: Maintain the Victoria Housing Reserve Fund guidelines in their current form and continue to consider funding gross number of units in grant applications (recommended)**

Staff would continue to review and evaluate VHRF applications based on the current VHRF guidelines and present Council with a project evaluation and recommendation predicated on funding gross new units.

### **Option 2: Set new grant amounts in the Victoria Housing Reserve Fund guidelines for replacement units (not recommended)**

Council could direct staff to report back with new reduced grant amounts in the VHRF guidelines that would favour net-new units in advance of the March 2022 VHRF application intake. This option to favour net-new units would reduce viability of new affordable rental housing projects at a time when there is a critical need for new affordable housing. This generally would result in a more complicated program for non-profits to apply to, while creating a misalignment with housing programs administered by senior levels of government. This option is not recommended as it would represent a third reduction of funding levels for non-profit housing providers on top of recent reductions in grant amounts.

### *Accessibility Impact Statement*

The proposed updates to maintain gross new units would provide greater opportunity for non-profits to deliver accessible units moving forward.

## *2019 – 2022 Strategic Plan*

The recommendation to maintain gross new units would align with the 2019-2022 Strategic Plan Objective 3: Affordable Housing.

### *Impacts to Financial Plan*

The recommendation to maintain gross new units will not have an impact on the financial plan. Staff will continue to monitor the sustainability of the VHRF each year.

### *Official Community Plan Consistency Statement*

The recommendation to continue to fund gross new units will support new affordable housing and aligns with OCP policy 13.24 – supporting the regeneration or redevelopment of older ground-oriented rental and cooperative housing developments by considering higher density redevelopment proposals on these sites if the same number, size, and tenure of units is maintained on-site, and the general rent level identified. Also, the recommended approach is consistent with the City's Urban Place Designations that envision redevelopment to achieve various policy objectives.

## **CONCLUSIONS**

By continuing to fund gross new units for VHRF applications the City would be supporting non-profit housing partners as they respond to the housing crisis. Based on analysis and consultation with housing providers the funding of gross units is not a primary factor influencing the redevelopment of older affordable housing sites. Instead, the funding of gross new units ensures that redevelopment is an option to deliver new affordable housing where land use policies, building condition, and land ownership converge to create favourable conditions for a project. By continuing to fund gross new units, the VHRF maintains flexibility for non-profits as they look for creative ways to leverage funding from senior governments to deliver much needed affordable housing.

This approach supports non-profits in creating new affordable housing to better serve community needs related to accessibility or energy efficiency and improving the quality of life for tenants. Also, this approach enhances the ability of housing providers to deliver deep affordability without the City and Province significantly increasing their land contributions to affordable housing projects. Many of these aging sites are strategically located in areas of the city where the OCP envisions densification to support improved transit service and other climate action goals. Overall, the need for affordable housing is acute and the funding of gross new units gives non-profits and City of Victoria the greatest ability to deliver affordable homes to serve our growing region.

Respectfully submitted,

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**Report accepted and recommended by the City Manager.**

## List of Attachments

- Attachment A: Consultation Summary: Housing non-profits & development consultants
- Attachment B: Correspondence from Housing Non-Profits
- Attachment C: VHRF Applicants & Project Info 2013-2021