Council Member Motion
For the Committee of the Whole Meeting of July 21, 2022

To:	Committee of the Whole	**Date:**	July 5 2022
From:	Mayor Helps and Councillors Dubow, Isitt, Loveday		
Subject:	Recommendations for Rental Incentive and MAARS projects		

BACKGROUND

From January to June, we hosted a series of dialogues with a number of community members with diverse perspectives on addressing housing affordability, housing supply, and tenant protections who don't often find themselves at the same table, and sometimes on opposing sides of issues. Participants included the four members of Council who are bringing forward these recommendations, rental home builders and building owners and managers, the Together Against Poverty Society, the Urban Development Institute, Landlord BC, and BC Housing. The purpose for bringing people together was to look at the issue of incentivizing the increase of rental supply and affordable housing while also ensuring tenant protections.

APPROACH

The spirit of the dialogues was informed by an approach laid out in William Isaacs book, *Dialogue and the Art of Thinking Together: A Pioneering Approach to Communicating in Business and In Life*. The thrust of Isaac's approach is that when working through difficult issues, it is more productive to have a conversation with a centre rather than a conversation with sides.

Isaacs notes that, "Two habits, among many others – losing respect for and so rejecting what is uncomfortable and unfamiliar, and becoming fixated on one's own certainties – pervade human consciousness." When this happens when working through complex issues, he says it creates, "a detached and defensive atmosphere hindering serious reflection and honest inquiry. This underlying atmosphere turns out to be a critical determining factor in whether we can talk successfully or not, because it leads us either to see one another as inextricably related aspects or as separate and disconnected parts, bringing up troublesome but largely disconnected problems that must be managed and eventually overcome. When we find ourselves in the latter mode, we tend not to talk together well."

He goes on to say, "This atmosphere within our own consciousness is generated, very simply, by the ways we think and feel – the levels of internal freedom we allow ourselves, the inclusiveness we are able to sustain, the authenticity we are able to muster, the flexibility of perspective we are able to take, and the ability and spaciousness we have in our hearts."[1]

Dialogue participants were provided with excerpts from the book in preparation for each session. The aim of the series was to come up with a few recommendations that had been examined from all angles and that all participants could endorse. We thank dialogue participants for their willingness and capacity to approach the conversation in this spirit.

THE PROBLEM

In a deep housing crisis with not enough rental housing and not enough affordable rental housing, the disappearance of low-end-of market units for redevelopment is putting pressure both on tenants, on existing rental stock and on all levels of government to build more social housing to fill the gap. We support the continued investment of all levels of government in public housing. And also, we note that keeping affordable units in the private rental market is important because it creates diverse communities and allows people to stay where they have lived, sometimes for decades.

The question we turned our mind to is: how can we provide the right of first refusal for tenants in redeveloped buildings in the private market at the rents they were paying in the building pre-development, while making it financially viable to keep building and redeveloping rental buildings? We note that the conditions for building rental housing – including rising interest rates and construction costs – have changed drastically since we began our discussions in January.

We looked at a number of potential redevelopment scenarios to see what would be viable. These are the current rents and unit mix for a four-story rental building in Fairfield:

	Suite Mix	Average Rent	Minimum Rent	Maximum Rent
Bachelor	-	-	-	-
1 Bedroom	22	$1,161	$901	$1,500
2 Bedroom	20	$1,432	$1,180	$1,700
3 Bedroom	1	$1,050	$1,050	$1,050
Total	**43**			

Site Size	28,800

The current financing models and lenders (banks) require a 15% profit margin for rental buildings, which means that significant density would be required to replace the existing units at the same rents. To replace these 43 units at existing rents in a new rental building would require between a

[1] William Isaacs, *Dialogue and the Art of Thinking Together: A Pioneering Approach to Communicating in Business and in Life*, (New York: Currency and Doubleday, 1999), 34-5.

12:1 to 18:1 FSR. This density and resulting height in Fairfield are unacceptable to the general public.

The crux of the issue is that rents at this level will not be found in new private market construction without some kind of incentive. When low-end of market affordable units are lost, units that rent at those levels can only be replaced through the creation of new government funded social housing run by a non-profit society. These buildings are taxpayer subsidized. And in addition, they don't pay property taxes to the City of Victoria.

THE IDEA

New private market rental buildings with more units and more density will generate more property taxes for the City. Our proposal is that this property tax difference, or increment, could be used to fund rent supplements – for tenants who require them – to replace their units at the same rents in a new building, and to supplement their rents living somewhere else during construction.

An objection to this might be that the city will lose property tax dollars. However, as noted above, if all the below market units in a building slated for redevelopment were lost, units that rent at the same rate could only be replaced by new government-funded, non-profit run buildings, which don't pay property taxes anyway *and* which require taxpayer subsidy to build.

The spirit of our idea is that when private market rental buildings are redeveloped, we incentivize keeping a number of truly affordable rents in new buildings by using the property tax increment. The City has used this approach – tax increment financing – for the library branch in James Bay. In that instance, the additional, net new property taxes generated through the redevelopment of Capital Park are used by the City to fund the ongoing library operations. In this case, we propose to use the additional, new property taxes would be used to find rent supplements.

Dialogue participants also noted that increasing density reduces the overall fiscal burden to the City: less water and sewer connections, less traffic congestion, less greenhouse gas emissions and so on.

We did some modelling of a project to see how this might work financially and how many tenants could benefit. In this example, 13 of the 46 units could receive an $800 per month rent subsidy using the property tax increment (net new taxes after redevelopment) keeping their rents at what they were before redevelopment. If a lesser subsidy were spread across more units, more people could benefit, paying only slightly higher rents than before construction. The key point from a financing point of view is that as long as the net income stays the same, the financing stays the same. In other words, if there is less expense because of less property taxes and less revenue because of lower rents, it doesn't make a difference to the mortgage lender.

VICTORIA RENTAL APARTMENT REDEVELOPMENT: 4-TO-6 STOREYS							
Existing Rental Building Data:							
Site Area:			30,000	s.f.	$ 1,150	average rent	
Density:	1.4	FSR	42,000	s.f.	$ 53,500	2022 Property Taxes	
Total Units:	770	ave. s.f.	46	units			
New Rental Building Site Data:							
Site Area:			30,000	s.f.	$ 2,302	average rent	
Density:	2.0	FSR	60,000	s.f.	$ 175,000	Estimated Property Taxes	
Total Units:	728	ave. s.f.	70	units	$ 121,500	Property Tax Differential	
NEW RENTAL INCOME and FINANCING REQUIREMENTS							
		NO SUBSIDY			PROPERTY TAX SUBSIDY		
Income:							
Gross Rents/Parking/Vacancy		$ 2,302	70	$ 1,933,696	$ 2,302	70	$ 1,933,696
Victoria Subsidy (per unit)		$ -	-	$ -	-$ 800	13	-$ 121,500
Effective Gross Income:				**$ 1,933,696**			**$ 1,812,196**
Expenses:							
Operating Expenses			17.07%	$ 330,027		17.07%	$ 330,027
Property Taxes			9.05%	$ 175,000		9.05%	$ 175,000
Property Tax Incentive			0.00%	$ -		-6.28%	-$ 121,500
Total Operating Expenses:			**26.12%**	**$ 505,027**		**19.83%**	**$ 383,527**
Net Operating Income:				**$ 1,428,669**			**$ 1,428,669**
Financing							
Annual Mortgage Payments				$ 1,298,790			$ 1,298,790
Net Loan Amount				$ 26,805,822			$ 26,805,822
Market Value		$ 1,428,669	4.25%	$ 33,615,741	$ 1,428,669	4.25%	$ 33,615,741
Equity Requirement				**$ 6,809,919**			**$ 6,809,919**

The appeal of this idea is that it is a relatively simple policy change that would require an amendment to the Tenant Assistance Policy and a clear way to define tenants who would qualify.

But there are also questions that need to be answered in thinking through how to implement this policy:

- Would the City administer the rent supplements and requalify tenants based on income each year?
- How long would the subsidy last? The length of the tenancy? Or the length of the original loan? Or in perpetuity?
- Where would the returning tenants live during the construction phase? Could the City or BC Housing build a building for this purpose to be used in perpetuity as transitional housing as buildings are being redeveloped? Or could we allocate a number of units / vacancies in existing buildings in the non-profit and/or the private sector? A rent supplement funded by the property tax increment could be used as an incentive for private sector vacancies at the same rent during construction.
- How would the City be kept whole and mitigate the risk of subsidizing rents during the construction phase before the full property tax increment was available?

The dialogue participants discussed these questions and began to brainstorm answers. We share these questions for the benefit of staff who will work through this policy idea as part of the rental incentive program that is currently being developed.

ADDITIONAL IDEAS

In addition, two further ideas were generated through these dialogues that we are recommending for Council's consideration.

First, is an advocacy motion to the federal government to remove GST from purpose built rental housing. In a recent 87-unit rental project, GST added $2,250,000 to the cost of the building. This money has to be either borrowed – increasing financing costs therefore increasing rents – or passed on directly to the tenants in the form of higher rents.

Second, the rental home builders, owners and managers noted that there is a massive slowdown coming in new rental construction because of rising interest rates, construction costs and supply chain issues. The City currently has the Market Rental Revitalization (MARRS) program that it's looking to undertake in the coming years to improve building energy performance. We are recommending using the Economic Revitalization Tax Exemption program available to municipalities through the Community Charter to provide a tax exemption of five to ten years for building retrofits and upgrades to incentivize building retrofits and improvements while the current fiscal climate may result in a slow down in new rental construction.

CONCLUSION

We are all aware that there is no one answer to addressing the dire housing crisis that we find ourselves in as a city, province and country. The Victoria Housing Strategy has a range of approaches including items that staff are working on such as the rental incentive program, the MARRS program and many other work-plan items. We recommend that these recommendations we are bringing forward be sent to staff to consider as part of the work that is already underway. The benefit of these proposed solutions is that they have been examined from many perspectives and multiple points of view and are supported by a wide spectrum of people working to address the housing supply issue, the housing affordability issue, and to protect tenants.

RECOMMENDATIONS

1. That Council direct staff to consider as part of their work on the rental incentive program and the MARRS program, respectively:

   a. Reinvesting the property tax increment in rent subsidies in redeveloped rental buildings
   b. Providing a property tax exemption for five to ten years for rental building retrofits

2. That Council write to the Prime Minister, the Federal Minister of Housing and Federal Minister of Finance to advocate for the removal of charging GST from purpose built rental buildings.

Respectfully submitted,

Mayor Helps | Councillor Dubow | Councillor Isitt | Councillor Loveday