

which is more effective in obtaining affordable housing as a community amenity contribution, rather than a fixed-rate approach.

Further, prior analysis has made clear the limitations on potential amenity yield in the City of Victoria context. To overcome these limitations, it is recommended that Council direct staff to explore the potential for higher densities above those envisioned in the *Official Community Plan (OCP)* and the viability of pre-zoning areas of the City where on-site affordable housing units could be feasible. In both of these explorations, public engagement is recommended. Council's direction in this matter will empower staff to focus their efforts and maximize the new resources approved for this project in 2018. With this direction, staff will aim to have a draft policy back to Council for consideration in the second quarter of 2018.

PURPOSE

The purpose of this report is to seek strategic direction from Council on how to approach the development of a new inclusionary housing policy that will best meet Council's objectives in achieving affordable housing units in projects. This touch-point with Council is necessary to determine the specific consultant services needed to support this work and ensure the strategies are feasible.

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 how to activate that objective, and the result was the implementation of the *Victoria Housing Strategy 2016 - 2025*, which was approved by Council on June 16, 2016.

The Housing Strategy contains data, analysis, targets and 25 actions falling into three broad categories:

1. **Increase Supply** of attainable housing for low to moderate-income households
2. **Encourage Diversity** of housing types, tenures, and prices across the City and within neighborhoods
3. **Build Awareness** and partnerships for affordable housing through communication, education, and advocacy.

The first supporting action under the *Encourage Diversity* category is to *create an inclusionary housing density bonus policy within the Downtown Core Area to seek on-site non-market housing as part of amenity contributions for projects above a certain threshold*. Related to this, the Strategic Plan also included an action to *establish a predictable flat fee per square metre for bonus density*.

In response to both of these actions and their overarching objectives, the *City of Victoria Density Bonus Policy* was developed and approved by Council October 27, 2016. The policy establishes fixed-rate amenity contribution targets which directs funds to the public realm improvement fund and the heritage seismic upgrade fund; and provides a threshold, when it is feasible, to negotiate onsite affordable housing units in larger projects located in the Core Residential and Core Business areas that exceed 30,000 square feet of bonus density.

In brief, the City of Victoria's *Density Bonus Policy* seeks to meet multiple City objectives, including affordable housing while considering the economic viability of redevelopment by:

- Identifying areas for bonus density opportunities;

- Setting amenity contribution targets, including a defined threshold where the contribution is recommended to be negotiated based on site-specific factors rather than based on a fixed-rate target;
- Identifying base and maximum densities consistent with the OCP and;
- Identifying projects exempted from amenity contribution requests such as purpose-built rental outside of the Downtown Core Area, and non-market housing.

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 while taking Council's draft inclusionary housing policy under consideration. On November 23, 2017, staff requested the additional resources required to undertake this work, including a budget to hire a consultant to conduct economic analysis and a two-year housing planner position to support this work as well as remaining items in the Housing Strategy. Council approved this funding request in January 2018.

ISSUES & ANALYSIS

1. Outcomes of Current Density Bonus Policy

An analysis of community amenity contributions (CACs) secured in 2016-2017 guided by the current *Density Bonus Policy* identifies a broad range of contributions in the form of in-kind or cash contributions supporting various policy areas and offsetting the impacts of growth. The focus of the current policy aims to generate community benefits from new development in the areas of affordable and rental housing, public realm improvements, and heritage revitalization to offset impacts of that development on the community.

The current *Density Bonus Policy* utilizes the base density for a site within the OCP and provides a means for calculating the increase in land value over that base density (either through economic analysis or via a flat rate calculation) to guide applicants in their determination of the scale of the contribution they propose to provide. Contributions can take the form of cash investments in reserve funds that support City-wide policy areas such as the Victoria Housing Fund, as well as other funds focusing on public realm improvements and/or heritage revitalization. Contributions can also be made in forms that are integrated into the development proposal itself or through in-kind works provided by the applicant as a means of supporting City policy goals. Examples of this would include the provision of on-site affordable or rental housing, public realm improvements on- or off-site, or through the revitalization of a heritage structure.

It is important to note that CACs are not the only tool that the City has to support the development of public amenities and infrastructure. Development Cost Charges (DCCs) are levied on development to help cover the cost of expanding or improving transportation (such as roads, pedestrian and bicycle access), infrastructure and parkland to accommodate new population growth in the City. Below is a summary of public amenities and contributions secured by the City to support new growth and development during 2016 and 2017.

	Development Cost Charges*	Heritage Improvements**	Contributions in-kind and to funds***	Affordable Rental and Supportive Housing Units	Market Rental Units
Total	\$4,610,000	\$5,100,000	\$3,086,000	97	359

*\$3,500,000 for multiple dwelling; \$860,000 for commercial; \$250,000 for other.

**\$5,100,000 for heritage façade refurbishment and seismic upgrade at 816 Government Street (Customs House).

***Breakdown of Contributions:

- \$1,200,000 to the Housing Reserve Fund;
- \$43,000 to the Local Amenity Fund;
- \$59,000 to the Downtown Core Public Realm Improvement Fund; \$59,000 to the Downtown Heritage Building Seismic Upgrade Fund;
- \$1,725,000 increase in the Dockside Green amenity package as a result of a renegotiated Master Development Agreement;

2. Limitations of Current Density Bonus Policy

While the current policy has generated some benefits to support City policy goals, the current policy has not generated a significant share of on-site affordable housing since its inception. In response, on July 21, 2017, Council passed a motion directing staff to replace the current Density Bonus Policy with an Inclusive Housing and Community Amenity Policy that aimed to better support the provision of non-market housing units within new development.

Below is a summary of some of the limitations of the current policy that may have contributed to the lack of specific outcomes in the area of affordable housing development.

a. Major Developments Not Subject to the Policy

Since 2016, the City has seen a number of significant new residential developments initiated within the City. Many of these projects could have potentially supported the provision of some affordable housing component or other amenities given their scale, value and location. However, many proceeded under existing zoning and density entitlements and were not therefore subject to the *Density Bonus Policy*. This is especially the case for a number of sites within larger multi-phase developments as well as properties in the R-48 Zone or other high-density, pre-zoned sites.

Notwithstanding that a rezoning application was not required in the above scenarios, in some cases, the developer still provided a public benefit in the project, in the form of an affordability component (most notably in the Vivid on Yates development).

b. Low or Negative Land Value Impacts

The foundation of the current Density Bonus Policy are two pieces of research conducted by Coriolis Consulting. First is the *City of Victoria Density Bonus Policy Study: For Sites Outside the Downtown Core Area* (March 5, 2015) and second is the *City of Victoria Density Bonus and Affordable Housing Policy: Analysis and Recommendations* (April 1, 2016).

In these research pieces, the consultants highlight the value of current uses on many redevelopment sites relative to average land values and achievable densities in Victoria. This relationship means that in many cases the outcome of land value assessments tends to generate relatively small land value increases on potential projects. This tendency is highlighted in the flat

rate for CACs recommended by the consultants within and outside the downtown of \$12 and \$5, respectively.

Recent community discussion has referenced CACs generated from rezoning applications in other municipalities, specifically North Vancouver and Burnaby, highlighting the much larger contributions provided by projects in those cities. While the functional structure of those cities' density bonus policies are largely the same as Victoria's, land values in Lower Mainland municipalities are much higher (for example, land in North Vancouver averages between \$350 and \$380 per buildable square foot compared to \$80 to \$100 here), and densities being sought in major rezonings are also often orders of magnitude larger (several recent rezonings in Burnaby have exceeded one million square feet of development). This creates a challenging situation to undertake a direct comparison to outcomes in different cities.

That said, market fundamentals have changed since Victoria's policy was initially developed; as such, an update to the market and policy assumptions used in land lift analyses will form part of the work undertaken by staff.

It is also important to note that a number of recent applications have included proposals to build rental housing or (though to a lesser extent) to include heritage conservation as a significant and policy-supported in-kind community amenity contribution. In these cases, this has had the impact of decreasing (often eliminating) any land lift and opportunity for additional amenities given the lower land values generated by projects that incorporate these elements.

c. Use of Fixed Rate

The current policy was developed and refined, to some extent, in response to developer requests for more certainty and clarity on the scale of amenity contribution discussions, with direction provided to staff to develop a flat rate option for CAC calculations. To date, very few development applications have elected to use the flat rate in the calculation of the CAC.

d. Use of Extra Density

As part of the adoption of the current density bonus policy, Council also indicated a willingness to entertain and consider proposals up to 10% above the current OCP density limits in exchange for directing the extra value created into an increase in affordable housing within the project. So far, no applicants have come forward seeking the additional density. Anecdotal discussions with applicants has indicated concerns related to community acceptance of the additional density and the overall approvability of the projects.

e. Lack of Focus on Affordable Housing

Limitations in the value created in typical redevelopment projects also means that affordable housing contributions are often in competition with other amenities being sought. As previously noted, current policy supports affordable housing, rental housing, heritage revitalization, as well as public realm improvements, day care spaces and other amenities on a case by case basis.

Increasing outcomes from development specific to on-site affordable housing may need to be supported by consideration of an absolute focus on realizing on-site affordable housing to the exclusion of some other priorities (such as public realm improvements, etc.).

3. Inclusionary Zoning versus Density Bonusing

There is no agreed upon definition of inclusionary zoning. Generally, inclusionary zoning refers to a zoning regulation or land use regulation that requires residential developments of a certain size to include a set amount of affordable housing as a condition of development approval.

Over 500 jurisdictions in the United States, including Chicago and New York, use inclusionary zoning in some format. In most of these jurisdictions, the cost of the affordable units is offset by tax relief or other incentives and the provision of the units can either be mandatory or voluntary. The objective of these policies is to create a stock of affordable housing across communities through private sector development.

The municipalities of British Columbia do not have specific authority within the *Local Government Act* (LGA) to enact policies that require affordable housing as a condition of rezoning. Instead, the LGA allows for density bonusing provisions that incentivize the provisions of amenities through the granting of bonus density in exchange for the voluntary provision of amenities, such as affordable housing and heritage conservation to offset the impacts of development. This approach allows Councils to consider the impact of new development along with amenities that work to mitigate those impacts while still maintaining their discretion over land use changes. This has benefits and drawbacks as described in the analysis of the City's current inclusionary housing policy above.

While Council cannot require affordable housing specifically as a condition of granting a rezoning, staff have determined that an inclusionary zoning approach could be imbedded within the *Zoning Regulation Bylaw* itself. It would be possible for the City to pre-zone portions of the City to allow for as-of-right density conditional on the provision of rental or affordable housing (secured via a housing agreement). The benefits and drawbacks of this pre-zoning approach are described in the concluding sections of the report.

4. Strategic Approaches for Achieving Affordable Housing Units in Developments

The following are potential strategic approaches to the development of the new Inclusionary Housing and Density Bonus Policy. Staff are seeking Council's direction on which strategies to pursue. This direction will inform the scope of work the consultants will undertake as they update the financial analysis that will inform the final policies for Council's consideration.

a. Refine the current Density Bonus policy focusing on a negotiated approach to community amenity contributions rather than a fixed-rate target

Council may choose to establish a policy based primarily on a negotiated approach rather than a fixed-rate target. The *Density Bonus Policy* establishes fixed-rate amenity contribution targets to support greater clarity for developers. When it is feasible, and bonus floor space exceeds 30,000 square feet, a negotiated approach to achieving on-site affordable units is pursued. Despite a fixed-rate amenity contribution option being available to developers of smaller projects, none have been opting for this approach and have instead chosen to negotiate. Moving to a primarily negotiated approach would align with current practice as well as with the recommendations that resulted from prior economic analysis. In their 2016 study, Coriolis indicated that for larger projects, a negotiated approach is optimal regarding securing on-site affordable units for the following reasons:

- There is wide variation in the amenity contribution and affordable housing that can be supported by rezonings in the Core Area. Some rezonings can support much higher contributions than other rezonings

- There is not a large number of sites that are financially viable rezoning candidates in the study area, so a high volume of rezoning applications in the area is not expected in any given year
- The inclusion of on-site affordable housing units within a rezoning will likely require negotiations, even if a target is established.

As part of this approach, staff will work with the economic consultant to update the economic assumptions and approach used as part of land lift analyses to reflect changes in the market conditions.

a. Establish affordable housing targets and levels of affordability to guide community amenity contribution negotiations

Council may choose to establish affordable housing targets specifically related to amenity negotiations during rezoning application processes. These targets would be grounded in economic analysis and an understanding of the trade-off between securing higher levels of affordability and potential unit yield. Establishing affordable housing targets will provide clarity for developers and staff when undertaking amenity negotiations. While affordable housing targets were established in the *Victoria Housing Strategy*, these apply more generally to the broader housing marketplace and a set of more nuanced targets focusing at the project level will provide for more certainty and guidance to discussions.

With the benefit of updated economic analysis, Council will be in a position to direct staff to negotiate with developers for affordable rental versus affordable ownership units at specific levels of affordability and specific tenure. Consultants could also be directed to provide a deeper understanding of the relative costs of different affordable housing unit management and ownership models to better inform the negotiation process. Deeper affordability requirements will significantly impact the number of units that can be expected through a negotiation approach backstopped by land lift analysis. Consultant support will be required to determine the percent of bonus floor space, which is sought as non-market housing for rezoning with defined levels of affordability. Setting targets for unit yield that are not achievable through amenity contributions would not be constructive. It is anticipated that the Capital Regional District will be publishing a housing supply study this spring which will inform the target setting process.

b. Prioritize City objectives for community amenity contributions given limits on bonus density

To achieve the maximum number of on-site affordable housing units through rezoning, Council may choose to forgo directing funds to public realm improvements and other amenities that have to this point been partly funded through this mechanism, while affordable housing remains a top priority.

This approach would divert contributions away from other funds related to heritage, public realm improvements, or to other recently identified priorities such as daycare spaces. As heritage conservation is an established community value, it is recommended that it remain a priority for amenity negotiations and not eclipsed by a total focus on affordable housing.

c. Consider higher densities above those envisioned in the OCP

Council may choose to consider higher densities than those envisioned in the OCP. There are apparent limitations to the potential yield of on-site affordable housing from rezonings primarily due to constraints on maximum densities (and in some areas of the city, associated maximum building heights). The *Density Bonus Policy* does allow for consideration of up to 10% additional density

beyond the maximum for Core Business and Core Residential sites (3.1.6). There has been no uptake on this offer of additional density since the adoption of the policy in 2016 indicating that it may be of insufficient value to motivate developers or the process to amend the OCP (in addition to rezoning) is seen as a barrier.

Economic analysis undertaken by consultants will allow staff to reconsider the base and maximum densities as laid out in the OCP. It is not recommended that bonus density be calculated from current zoning as this would present the density bonus policy more as a tax on development and may open the program to legal challenge.

If the goal of on-site affordable units is to be realized, Council may need to consider higher densities than those currently envisioned in the OCP and a more significant density bonus offering than the 10% provided in the current policy. A major risk of this approach is a possible lack of community support for densities and associated building heights beyond those currently in place, however, staff would recommend public engagement if that is determined to be an effective solution.

d. Consider pre-zoning areas of the City where on-site affordable housing units would be feasible, using density bonus zoning consistent with the Local Government Act

The Council motion directed staff to consider an inclusionary zoning approach to securing on-site affordable housing. As identified above, this could be achieved by pre-zoning specific areas of the City with a new zone that provides additional density for affordable and/or purpose-built rental housing as-of-right. Once pre-zoned, development review of projects which meet zoning requirements would be limited to consideration of development permits. If Council chooses to direct staff to examine this direction, staff would work with the consultant to determine which areas may be conducive to pre-zoning in this manner to identify a base density from which to enable affordable housing units.

Benefits of this approach would be the creation of a clear cause and effect relationship between development rights and the provision of affordable housing units, removing approval times and entitlement risk to applicants in exchange for the provision of more mixed-income developments.

There are some negative aspects of this approach. These include Council forgoing some discretion around new development (limited only to the development permit process). Community benefits under this type of approach would also be limited to affordable housing, and the flexibility to address other policy areas through amenity provisions would be limited.

Further, defining the unit targets and levels of affordable housing required to qualify for bonus density in a given zone under this approach will be vitally important to maintain project feasibility. A review other jurisdictions where inclusionary zoning approaches like this have been employed have shown that where targets are not well calibrated, applicants may choose to seek variances to the targets or may choose to forgo projects altogether.

OPTIONS & IMPACTS

Option 1 - Update Policy and Explore Pre-Zoning Areas (Recommended):

As Council's objective is to achieve on-site affordable housing units in developments, staff recommend exploring all five strategies noted in this report:

1. Negotiated approach to CACs
2. Establish more precise targets and levels of affordability
3. Prioritize City objectives for CACs

4. Consider densities above the OCP
5. Consider pre-zoning areas of the City (using bonus density zoning) for affordable housing.

Policy solutions will be recommended when the draft policy is formulated, and once the feasibility of these and the potential for community acceptance is more thoroughly explored through consultant support and stakeholder engagement.

Option 2 - Update policy only:

Under this option, staff would proceed with updating the policy but would not explore the potential of pre-zoning areas of the City.

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

These strategic approaches will have no impact on the financial plan as Council allocated budget to support this work as part of the 2018 budget process.

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).

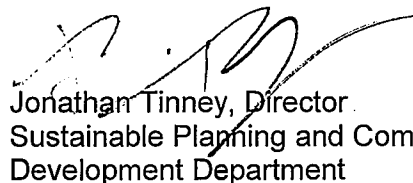
CONCLUSIONS

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. To achieve this objective, staff recommend pursuing five complementary strategic approaches that could form the basis of a new policy. This includes a negotiated approach, establishing more precise targets and levels of affordability, prioritizing objectives around community amenity contributions rather than the current distributed approach given the limitations with bonus density in Victoria, and exploring pre-zoning areas of the City where feasible.

Respectfully submitted,



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Report accepted and recommended by the City Manager:

Joseph Jenkins
Date: March 2, 2018

List of Attachments

Attachment A: City of Victoria Density Bonus Policy

Attachment B: Council's Draft Inclusionary Housing Policy

Attachment C: Density Bonus and Affordable Housing Policy: Analysis and Recommendations, April 2016.