



Committee of the Whole Report

For the Meeting of April 14, 2016

To: Committee of the Whole **Date:** April 4, 2016
From: Jonathan Tinney, Director, Sustainable Planning and Community Development
Subject: Amenity Contribution and Inclusionary Housing for Density Bonus Projects

RECOMMENDATION

That Council direct staff to:

1. Create a Density Bonus policy outside of the Downtown Core Area, which:
 - a. sets a fixed-rate target for amenity contribution to be requested when considering additional floorspace (bonus density) above the base density as part of rezonings within Large Urban Village and Urban Residential place designations;
 - b. establishes a fixed-rate target of \$5.00 per square foot (\$53.82 per square metre) for additional floor space that is permitted over the base density;
 - c. identifies the base density as the greater of the OCP base FSR or the existing zoning FSR (whichever is higher) within Large Urban Villages and Urban Residential place designations;
 - d. specifies that amenity contribution requests would not apply to purely commercial or industrial development, or to development of purpose built rental housing secured for the life of the building by a rental housing agreement;
 - e. provides guidance that bonus density contributions be directed to funding amenities within neighbourhoods or urban villages near the development generating the contribution, with amenity priorities to be identified by Local Area Plans;
 - f. provides for an applicant to retain a third party consultant to conduct an economic analysis if the applicant does not find the fixed-rate target supportable for a standard rezoning;
 - g. provides that a third-party economic analysis be used as a basis of negotiation for amenity contribution when bonus density is requested as part of rezonings within the Town Centre designations, and for major rezonings (defined as rezonings above the maximum density within the OCP, that are required to provide significant on-site amenities, that are generally larger than a single city block, or that are rezonings from industrial or institutional uses to residential or mixed-use), and,
 - h. establishes a reserve fund for improvements within neighbourhoods and urban villages, to which amenity contributions can be directed.
2. Develop an Inclusionary Housing Density Bonus Policy within the Downtown Core Area and amend the Downtown Core Area Plan to reflect this policy which:
 - a. sets a threshold of 30,000 square feet of bonus floorspace (floorspace above the base density in the Downtown Core Area Plan) below which bonus density projects

in the Downtown Core Area may elect to contribute amenities according to a fixed rate schedule of \$12.00 per square foot of bonus residential density. Monetary contributions should continue to be directed to the Downtown Core Area Public Realm Improvement Fund (75%) and Downtown Heritage Buildings Seismic Upgrade Fund (25%).

- b. provides the ability to negotiate amenity contributions for projects seeking 30,000 square feet or more of bonus density floorspace, considering third party economic analysis regarding the supportable contribution. The City may elect to seek on-site non-market housing as part of a package of amenity contributions on a site-by-site basis.
 - c. considers opportunities for additional bonus density in the Downtown Core Area Plan (DCAP) Bonus Density Area, up to 10% above the maximum density, for development projects which include on-site affordable housing. The City would seek at least 15% of this additional 10% incremental floorspace, as non-market housing secured by a housing agreement limiting rents to no more than Housing Income Limits (HILs) rents as defined by the Province. Alternatively, the City would consider an equivalent contribution of rental or affordable homeownership units as proposed by the developer, secured by a housing agreement for the life of the building, and defining maximum rents or sales prices and qualified renters or buyers. In some areas, the OCP may need to be amended to support this additional density.
 - d. exempts bonus density commercial floorspace from amenity contributions.
3. Incorporate the proposed amenity contribution target and affordable housing policies into the Downtown Zoning Bylaw which is under preparation.

EXECUTIVE SUMMARY

The purpose of this report is to provide information, analysis and recommendations on the possibility for setting a fixed rate target for amenity contributions associated with rezonings and bonus density, and seek affordable housing as part of such rezonings and bonus density in order to implement Inclusionary Housing goals.

A report prepared by Coriolis Consulting dated April 1, 2016 on Density Bonus and Inclusionary Housing in the Downtown Core Area (Attachment 1) concludes that it is possible to set a fixed rate target for amenity contribution, but that there are advantages to continuing to negotiate amenity contribution. The study also finds that it is possible to set a target for inclusionary housing based on common definitions of affordable housing, but that in typical bonus density projects, but that the proportion of affordable housing supported is relatively low and reduces the ability of projects to contribute to other amenity goals (Downtown Core Area Public Realm Improvement Fund and the Downtown Heritage Buildings Seismic Upgrade Fund). For typical projects where the bonus density space is entirely commercial, Coriolis finds very limited potential for bonus density. Finally, the study concludes that the allowable maximum density, definition of affordable housing, and changing market conditions can all have significant impacts on the feasibility of providing an affordable housing contribution.

Based on these findings, staff conclude that a hybrid amenity contribution system is preferable:

- For smaller projects within the Downtown Core Area Density Bonus System, the City could seek monetary contributions to existing funds, based on a fixed rate target, to simplify the approval process;

- For rezonings within Large Urban Village and Urban Residential place designations, the City could also seek a fixed rate target contribution as most of these rezonings are not large enough to support significant on-site amenities or affordable housing.
- For larger projects in the Downtown Density Bonus System, as well as for development proposals in special density areas like the Inner Harbour District, the City could seek a negotiated monetary contribution and/or affordable housing contribution based on third party economic analysis. This provides the opportunity to evaluate if a given site can support a significant on-site affordable housing contribution. Outside of the Downtown, a negotiated approach is recommended for non-standard rezonings and rezonings within the Town Centres, for the same reasons.
- Projects where the bonus density floorspace is entirely commercial should be exempted from amenity contributions as these projects typically support very limited contributions, while providing fiscal benefits to the City.

Because the available amenity contribution is limited and the City has already defined desired amenities downtown, staff conclude that adding 10% to the supportable density within the downtown Density Bonus System is desirable. This not only increases the overall amenity contribution supported, but makes it more feasible for development to provide meaningful on-site affordable housing contributions in order to implement Inclusionary Housing.

Staff recommend further work, through the Municipal Housing Strategy, to refine the preferred affordable units which could be sought, and accompanying policies that would guide and support securing inclusionary housing units within bonus density projects; undertaking consultation with development sector stakeholders to gauge the impacts of this policy on future development; and reviewing this policy after one year.

PURPOSE

The purpose of this report is to provide information, analysis and recommendations regarding setting a fixed rate amenity contribution target for bonus density projects inside and outside of the Downtown Core Area, and to recommend a policy for securing affordable housing as part of new developments ("Inclusionary Housing").

BACKGROUND

On July 9, 2015, Council directed staff to undertake a study examining the feasibility of a fixed rate target for amenity contributions in the Downtown Core Area, as well as the feasibility of implementing Inclusionary Housing policies for bonus density projects. This followed on analysis completed for projects outside of the Downtown Core Area.

ISSUES & ANALYSIS

Amenity Contributions and Affordable Housing Supportable by Bonus Density in the Downtown Core Area

Coriolis finds that under existing land uses, there is a range of land values throughout the downtown, depending on the current use and density of existing development and the density limits in the Official Community Plan and Downtown Core Area Plan (DCAP). Some sites are redevelopment candidates under current market conditions and anticipated density, while others are more valuable in their current use. Many sites require some of the bonus density simply to be viable redevelopment candidates. Because of this, there is a range of supportable amenity

contribution for individual redevelopment projects in the downtown area which receive bonus density. For this reason, Coriolis recommends that the City continue to negotiate amenity contributions in the Downtown Core Area.

However, Coriolis does find that typical redevelopment candidate sites in the designated Density Bonus Areas, as shown on a map in Attachment 2, could support a fixed rate amenity contribution of \$12.00 per square foot of bonus density. Because of the variability in sites, the suggested fixed rate amenity contribution target is set towards the lower middle end of the range, meaning some potential amenity contribution must be given up in order to create a more predictable system that supports redevelopment. Staff is recommending a fixed rate amenity contribution be applied below a stated threshold, in order to encourage predictability for smaller projects.

A small number of sites – including those that are currently developed to a low density with surface parking, and those that can support higher densities possible in wood frame construction (up to 3.5 FSR depending on site and design constraints) – can support a greater level of amenity contribution per square foot of bonus floorspace. In the case of very low density sites, the current revenue and value is low compared to the value if developed at either base or maximum densities. In the case of woodframe construction, the cost of construction is generally lower than concrete construction costs. On the other hand, many sites that are developed with more than a single storey of commercial use are not viable redevelopment sites in today's market conditions. It should be noted that the supportable amenity contribution will change as market conditions change.

Coriolis finds that typical redevelopment candidate sites can support limited on-site affordable or non-market housing units, if these are desired instead of monetary amenity contributions. The proportion of affordable housing supportable is sensitive to the definition of affordable housing. For purposes of this study, an affordable unit was defined generally as a non-market unit renting at the Provinces' Housing Income Limits (HILs) rents, with a parking ratio of 0.5 spaces. This rental limit provides a moderately priced low-end-of-market unit which may also be eligible to renters using additional subsidies. These rents represent average market rents for all units (new and existing) and are consistent with "low end market rental" (for bachelor and one bedroom) and "near market rental" (for two bedroom) identified by the Housing Affordability Task Force. Current HILs rents are \$728/mo. for a studio unit, \$862 per month for a one bedroom unit and \$1,075 per month for a two bedroom unit.

Using this definition of affordable housing, Coriolis finds that approximately 6% of bonus density floorspace can be delivered as affordable housing by a typical redevelopment project. This translates into approximately 3% of total residential space in a project as affordable. The provision of this amount of affordable housing would account for all of the potential amenity contribution of a typical project, with an "opportunity cost" of approximately \$139,000 per affordable unit for a typical concrete project assuming affordable housing is distributed evenly throughout the project. Thus, there is a tradeoff between seeking developer contributions as on-site affordable housing, and seeking contributions to amenity funds including the Downtown Core Area Public Realm Improvement Fund and the Downtown Heritage Buildings Seismic Upgrade Fund.

The report also tested several other models of affordable housing, guided by the Housing Affordability Task Force report: a low income unit renting for 50% of HILs rents (the lower end of the income spectrum identified by the Housing Affordability Task Force); a non-market unit renting at 90% of HILs rents, and an affordable homeownership unit selling at a price (\$195,000 - \$245,000) generally affordable to the upper range of income need identified by the Housing Affordability Task Force for affordable ownership (income of \$50,000 - \$60,000 per year,

corresponding to the upper 25% of renter households described in the Housing Affordability Task Force report). This affordable homeownership target would support a slightly higher (1-2%) proportion of bonus floorspace as affordable housing than rental units targeting HILs, while a 50% HILs target would support few on-site units even with no on-site parking spaces provided.

Impacts of Density on Amenities Supported

Coriolis examined the potential benefit of considering 10% additional density above the maximum densities where density bonus is anticipated by the DCAP or the OCP, and whether this could provide further opportunity for amenity contribution in the form of affordable housing. This 10% was examined because it is considered supportable in areas where the OCP indicates an “approximate” maximum density. This density appears supportable within the building heights anticipated by the DCAP, although further analysis should be undertaken. Under this scenario, typical projects could support \$30 per square foot of bonus density above the OCP maximum, or 15% of bonus floorspace above the OCP maximum as affordable rental units (HILs rents). For projects that use this added density, the total contribution supported by a project could increase by approximately 40% as compared to the current maximum density.

These supportable contributions are sensitive to market conditions and may change over time, with changes in housing prices disproportionately affecting amenity contributions. Coriolis recommends allowing the target rate to be adjusted annually based on an indicator of construction cost inflation in the Victoria market, and undertaking a comprehensive update of the target rate every three to five years, or in response to major market changes.

Setting a Threshold below which a Fixed Rate Target Should be Used

In recommending a threshold below which to seek a fixed rate amenity contribution, staff considered:

- the ability to negotiate for a meaningful number of affordable housing units. The proposed threshold of 30,000 sq. ft. of bonus floorspace could support two to three affordable housing units within a typical redevelopment project. A project with this amount of bonus density would typically have 50-60 total residential units.
- a threshold above which it is economical to pursue a third party economic analysis, the cost of which is deducted from the available amenity contribution. The proposed threshold would result in \$360,000 of amenity contribution according to the proposed fixed rate target;
- a threshold below which some projects within the Downtown would tend to fall, while maintaining the ability to negotiate for larger projects as market conditions change. Among five recent residential or mixed use projects within the Bonus Density System area, two would fall below the threshold, one would fall just above the threshold, and two were significantly higher than the threshold. Typical site sizes corresponding to this threshold are estimated at 12,000 – 20,000 square feet by Coriolis, depending on the Bonus Density area.
- a review of case studies found that Richmond has successfully used a threshold of 80 total units but is examining lowering this threshold.

Bonus Density Supportable Outside of the Downtown Core Area

Coriolis continues to recommend a fixed rate amenity contribution target of \$5 per square foot of bonus density for standard redevelopment outside of the Downtown Core Area, while recommending negotiation of amenity contributions for “non-standard” rezonings (defined as

larger sites, rezoning from employment, industrial or institutional uses to residential uses, and sites within Town Centres). There would be opportunities to negotiate affordable housing as part of redevelopment considerations of larger sites, particularly within Town Centres. This is consistent with the OCP which encourages new seniors' housing, transitional housing and non-market rental housing within close proximity to the Urban Core, Town Centres and Large Urban Villages to enable easy access to services and facilities necessary for daily living. A negotiated approach to amenity contributions in Town Centres could contribute to this objective.

Recommended Consultation

Staff recommend that consultation occur with development and non-profit sector stakeholders to gauge the impacts of this policy on future development and on the operations of affordable housing.

Consultation on desired neighbourhood amenities outside of the Downtown Core Area will occur through individual local area planning processes.

Considerations

In formulating these recommendations, staff has considered the following and weighed the tradeoffs between different goals:

- Balancing predictability, versus flexibility and maximization of amenity contribution: The recommendation provides a system where some projects will be subject to a predictable amenity contribution target policy, providing certainty and simplifying the development approval process, while other larger projects will continue to be subject to negotiations.
- Balancing amenity contribution among the Downtown Core Area Public Realm Improvement Fund, the Downtown Heritage Buildings Seismic Upgrade Fund, and the added goal of affordable housing: The recommended approach seeks to incrementally advance these three amenity goals, while recognizing the limited amount of amenity contributions supported by development and seeking to grow the total contribution amount through added density.
- Creating affordable housing units on site and integrated with private development (inclusionary housing), versus accepting contributions to the Housing Reserve Fund: The recommended approach seeks to negotiate for on-site affordable housing units where feasible, in larger projects, with the potential of generating more affordable units on specific sites. The recommended approach also creates additional opportunities for on-site affordable housing through additional density. Finally, the recommendations include looking at a broader range of tools, through the Municipal Housing Strategy, that could support a more robust inclusionary housing policy.
- Considering additional density versus maintaining current limits: The recommended approach considers incremental additional density within the Density Bonus System Area, while maintaining current policies for special density areas like Old Town and the Inner Harbour. This additional density makes inclusionary housing goals more feasible.

OPTIONS & IMPACTS

2015 – 2018 Strategic Plan

This proposal supports the Strategic Plan 2016 outcome of including income-mixed zoning in a Municipal Housing Strategy and implementing income-mixed zoning in 2016.

Impacts to Financial Plan

The proposed policies do not affect the Financial Plan, as the amount of amenity contributions which can be generated in one year are not predictable. All things being equal, seeking on-site affordable housing or contributions to the Housing Reserve Fund will reduce the amount available for the Downtown Core Area Public Realm Improvement Fund, the Downtown Heritage Buildings Seismic Upgrade Fund.

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).

If Council would like to consider additional density, up to 10% above the maximum density in the areas anticipating bonus density, this may require an OCP amendment in some areas so as to avoid consideration of OCP implications on a case-by-case basis.

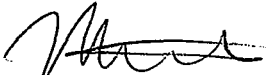
CONCLUSIONS

This policy work addresses two Strategic Plan goals: the creation of a fixed-rate amenity contribution target to streamline and provide more certainty to the development application process, and the creation of inclusionary housing targets to secure affordable housing units (not just monetary contributions) on-site in market-rate developments.

The consultant's work has determined that there is limited potential for on-site affordable housing contribution for typical redevelopment projects under current market conditions, making it difficult to establish a robust system to deliver on-site affordable housing units (as defined for the Coriolis study). The limitations also mean that affordable housing contributions must be weighed with other amenities sought in the Downtown Core Area (currently, contributions to the Downtown Core Area Public Realm Improvement Fund and the Downtown Heritage Buildings Seismic Upgrade Fund). However, the ability of individual projects to support contributions varies. Therefore, it is preferable to establish a threshold above which staff and developers may negotiate a package of amenity contribution that may be entirely affordable housing. This system is also able to accommodate the varied level of amenity contribution in any one project, where certain projects may support significant on-site affordable housing as compared to other projects. Setting a target for affordable housing establishes an expectation that developers will offer to provide affordable housing where feasible within proposed projects.

Staff also believe that it may be possible to create a more robust inclusionary housing system by assessing the desired affordable housing unit types and income targets, guidelines for inclusion of affordable units within a project, as well as potential incentives. The City has not yet established clear targets for the types, tenure and income targets of affordable housing desired in the downtown; this work will be done through the creation of the Municipal Housing Strategy. Once completed, it will be possible to set more meaningful targets for seeking on-site affordable housing in larger projects. Staff also finds that if on-site affordable housing units are desired, the City will need to create systems for managing and monitoring these units and their transfer from developers to non-profit housing providers and qualified buyers. This work and policy recommendations will also be completed as part of the Municipal Housing Strategy implementation.

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Respectfully submitted,




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Jonathan Tinney
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Report accepted and recommended by the City Manager: _____

Date: _____


April 8, 2016

List of Attachments

- Attachment 1: Density Bonus and Affordable Housing Policy: Analysis and Recommendations, Coriolis Consulting Corp., April 2016
- Attachment 2: Map: Downtown Core Area Plan Bonus Density System and Associated Areas
- Attachment 3: Minutes from the Council Meeting of July 9, 2015