
Affordable Housing and Amenity Contributions from
Urban Development Projects in Kelowna:
Interim Report

DRAFT
February 2008

Prepared for:
City of Kelowna

By:
Coriolis Consulting Corp.

Table of Contents

1.0	Background	1
2.0	The Economics of Amenity Contributions	2
2.1	Density Bonus Zoning	2
2.2	Voluntary Contributions at Rezoning	3
3.0	Existing Situation in Kelowna	5
3.1	Potential for Voluntary Amenity Contributions	5
3.2	Existing Affordable Housing Approach in Kelowna	8
4.0	Evaluation of the Existing Situation	11
5.0	Improving the City’s Approach to Affordable Housing Bonus and Amenity Contribution	12
6.0	Conclusions	14
	Exhibits	16

1.0 Background

The City of Kelowna has been trying to use a density bonus zoning approach to provide an incentive to developers to build affordable housing units, for which there is a need because of the strong growth in residential prices in this market.

The current system establishes a base allowable density in some of the multifamily zoning districts and allows developers to exceed this density (i.e. build more units) if some of the additional units meet the City's criteria for affordable housing.

To date, few developers have taken advantage of the opportunity for additional zoning. The City of Kelowna retained Coriolis Consulting Corp. to investigate why there has not been much market interest and to suggest ways in which the system could be made more effective. Because density bonus zoning can be used to obtain other amenities as well as affordable housing, the City asked that this analysis also consider in general terms how the City could obtain more amenity contributions from urban development projects.

This document is an interim report that summarizes the analysis of the existing situation, investigates why not much affordable housing has been created using the existing density bonus policy, and suggests some directions the City could consider.

This analysis focuses on affordable housing and amenity contributions that are based on the application of the City's zoning power. There are other ways in which the City can create or encourage affordable housing as part of a comprehensive strategy. These other means will be addressed in the full project report. This interim report looks only at density bonus zoning and voluntary contributions at rezoning.

2.0 The Economics of Amenity Contributions

There are two main ways in which municipalities can use their zoning powers to obtain amenity contributions from urban development projects:

- Density bonus zoning.
- Voluntary contributions at rezoning.

2.1 Density Bonus Zoning

This is the approach that Kelowna is currently using to try to achieve the construction of affordable housing units. In a density bonus zone, the zoning schedule allows a base or outright density that can be achieved without providing any amenity contribution. The zoning schedule also provides for additional density that can be obtained in exchange for providing a specified amenity (which might be an affordable housing contribution, but the zoning bylaw could identify other kinds of amenities that are to be provided in order to obtain the additional density). An example in Kelowna is the RM-5 zone, in which it is possible to achieve up to FAR 1.3 (in a project with structured parking), plus a bonus of 0.1 (i.e. a total of FAR 1.4) by making the prescribed affordable housing contribution.

For this approach to amenity contributions to be effective, the following conditions must be true:

- Developers have to want the additional density. They must perceive that the additional space is marketable and will be profitable to build.
- The cost of obtaining the additional density (i.e. the cost of providing the necessary amenity contribution) must be equal to or less than the land value associated with the additional density. Developers must perceive that there is a financial incentive to use the bonus density.
- Developers must buy development sites based on land value at the outright or base density, so that they are able to make the amenity contribution. If developers pay for land based on the after-bonus density, then they have in effect eliminated their financial ability to pay for the amenity. For example, if a site is zoned for an outright FAR of 1.3 with an additional FAR 0.1 (bringing total density to FAR 1.4) in exchange for a prescribed amenity contribution, the developer must buy the site at a value that reflects FAR 1.3 as the development potential. The developer then in effect acquires the other 0.1 FAR by making the amenity contribution.

2.2 Voluntary Contributions at Rezoning

Rezoning land (for a change of use and/or a change of density) is a discretionary act by City Council. In deciding whether to approve a rezoning, Council must decide whether the new use or density is in the community interest. One important factor in this determination is whether the proposed development will impose costs or impacts on the community or whether it provides benefits that outweigh any costs or impacts.

A project that makes a voluntary amenity contribution as part of a rezoning may be more likely to be regarded as in the community's interest. For example, a project proposed in a neighbourhood that is deficient in recreation amenities or that lacks a fire hall may be acceptable if the project voluntarily contributes funds, land, or facilities to address the deficiencies.

In these situations, the question arises: what is the appropriate voluntary amenity contribution? Some municipalities take the view that the contribution simply needs to be some combination of funds, land, or facilities that addresses an immediate local concern. Other municipalities take the view that the voluntary amenity contribution should reflect the land value that is being conferred by granting the change in land use and/or density. The rationale is that the developer will make a profit by building/marketing the additional space, so should be willing to in effect pay market value for the additional development entitlements (i.e. the upzoning) that allow the project. Acquiring additional density by making an amenity contribution is no different in principle than buying land.

For this approach to obtaining amenity contributions to work, the following conditions must be true:

- A developer must want the change in land use and/or density. The developer must see an opportunity to make a profitable project under the new (proposed) use and density.
- The cost of any amenity contribution the developer makes must be equal to or less than the increase in land value associated with the rezoning. If rezoning will increase the value of a property from say \$1.0 million to \$1.5 million, then in theory the developer should be willing to make a contribution of up to \$500,000 for amenities. The developer still has the incentive of earning the developer's profit from doing the project; the \$500,000 is simply the land value increase due to the change in use or increase in density. But if the developer in this case would have to make an amenity contribution that costs more than \$500,000, the developer would probably not be interested in the rezoning.
- Developers must be able to buy development sites based on value under the existing zoning. If developers pay for land based on its value after rezoning, then (from their perspective) the rezoning does not create a lift in land value and there is no financial "room" to make a voluntary amenity contribution. This is a very important point, best illustrated with an

example. Suppose a community includes many sites zoned for low density residential (say FAR 0.5) but designated in the Official Community Plan for higher density residential (say FAR 1.5). If the market knows that the rezoning from 0.5 to 1.5 FAR is relatively easy and fast to obtain and does not involve any need to make an amenity contribution, then development sites will tend to trade based on the value of land at FAR 1.5. Land sellers will in effect say “why should I sell you my land based on a value of 0.5 FAR when I know you are going to City Hall for a rezoning to 1.5 that will cost you very little. I want to be paid the value of my land based on the 1.5 FAR you are getting”. Developers will in effect have to “prepay” based on anticipated zoning or they won’t be able to buy sites. In contrast, if the market knows that rezoning is only likely to be approved if there is an appropriate community amenity contribution, the land purchase is quite different. Developers say to landowners “Yes I am going to get the land rezoned from 0.5 to 1.5, but in order to do that I am going to have to make an amenity contribution equal to the lift in value associated with rezoning. I can only pay buy your land based on its value under existing zoning. If I pay more, I will in effect pay twice, once to you and once for an amenity contribution”.

In general terms, the urban land markets in BC can be divided into three categories, in terms of negotiated amenity contributions:

- Communities in which there has been a system of amenity contributions in place for awhile. In these communities, developers and land owners know that the market value of development sites should be based on existing zoning, because any rezoning will likely be associated with an amenity contribution that will absorb some or all of the lift.
- Communities in which there is not a system of amenity contributions in place. In these communities, land tends to trade based on its likely development potential (based on OCP designations or the general pattern of rezonings) rather than based on existing zoning.
- Communities in transition to a system with amenity contributions. These communities face a difficult challenge. The land market will not adapt quickly or without controversy, because land sellers will probably not be willing to accept what they see as a reduction in the value of their land. This will make it hard for developers to acquire sites (unless they are willing to absorb the amenity contribution from their profit, which is not a sustainable business practice), which means the pace of development can decrease and housing prices can rise, which is counter-productive if the aim of obtaining amenity contributions is to do something about affordable housing.

3.0 Existing Situation in Kelowna

We have conducted financial analysis and obtained input from the development community in order to evaluate the situation in Kelowna regarding the existing affordable housing density bonus and the prospects for obtaining more amenity contributions from urban development projects using zoning-based mechanisms.

3.1 Potential for Voluntary Amenity Contributions

Kelowna has an Official Community Plan that designates areas for higher residential and commercial densities than allowed under existing zoning. Rezoning in Kelowna that are consistent with the designations and policy intent of the OCP have tended to be approved without being associated with voluntary amenity contributions. Consequently, the land market has become accustomed to basing land value on the potential density anticipated in the OCP rather than the actual density allowed under existing zoning.

This situation limits the potential to negotiate voluntary amenity contributions in rezonings consistent with OCP designations, as developers have essentially already paid to land sellers all of the potential lift in value.

There appear to be two other factors at work that will tend to limit the potential to obtain amenity contributions:

- Many potential high density residential sites are already developed with older uses that often include commercial space. Such properties have a “floor” of value that is determined by the commercial income from the property (i.e. the amount an investor would pay for the property just to collect the rent from existing improvements). For such sites to be redevelopment candidates, the value supported by redevelopment must be high enough to exceed the floor; in some cases, the value supported by existing zoning may not be enough to enable redevelopment, adding to the pressure to pay for land based on its OCP designation.
- Much of the potential land for redevelopment is, according to the development community, owned by a small number of parties. These land owners are likely to resist any change in City policy that would have the effect of dropping land value down from the “OCP value” to the “existing zoning value”. If such owners respond by not selling land, the pace of development will slow and there will be upward pressure on prices in an already heated housing market.

These circumstances will make it difficult to introduce a new policy that anticipates voluntary amenity contributions for any rezoning up to the density designated in the OCP. The market has

in effect already captured the value implied by OCP designations, so if the City tries to recapture this value in the form of amenity contributions there will be transition problems in the local housing market. It could take several years for the market to adjust.

We have used some financial models to illustrate this point.

Assume a hypothetical 1 acre site is currently zoned RM-3 to allow townhouses at FAR 0.7. Assume the site is designated in the OCP to encourage higher density residential, say at the RM-5 allowable density of FAR 1.3.

Exhibit 1 shows the financial performance of the low-rise frame multifamily project in the RM-5 district at FAR 1.3 (assuming structured parking), using typical current Kelowna numbers for selling price and project cost. The project has the ability to generate a developer profit margin of 15% of revenue (which is a typical target), if the price paid for land (the residual value at the bottom of the exhibit) is about \$2.2 million (which works out to about \$51 per square foot of site or about \$39 per square foot of buildable residential space).

Exhibit 2 shows similar numbers for the project if built as townhouses at the existing zoned density of FAR 0.7. In this case, the project is viable (supporting a profit margin of 15% of revenue) assuming the price paid for land is about \$2.0 million (which works out to about \$45 per square foot of site or \$65 per square foot of buildable space).

The land is worth more after rezoning. If the developer could acquire the site based on the existing zoned value (\$2.0 million), there would be a lift of about \$200,000 or so in value after the site is rezoned. However, if the developer must pay the RM-5 value then there is no lift from the developer's perspective. In this case, the market (i.e. sellers of development land) values land based on the future rezoning potential, not the current actual zoning. Because the market is working this way, there is in a sense a lost opportunity to achieve an amenity contribution of about \$200,000 on this project.

Exhibits 3 and 4 go through a similar analysis for a potential high density (concrete) project. Assume a site that is currently zoned C-3, under which a developer could build a low-rise wood frame apartment at FAR 1.0, but designated in the OCP for high rise development in the C-4 zone, say a 12 storey concrete building at FAR 1.5.

Exhibit 3 models the financial performance of the low-rise project at FAR 1.0. This is viable if the developer pays about \$1.7 million for the land (about \$39 per square foot of site).

Exhibit 4 models the financial performance of the 12 storey building built at FAR 1.5 in the C-4 zoning district. This project supports a developer profit margin of 15% of revenue if the developer

buys the land at a price of \$2.7 million (the residual value at the bottom of the exhibit), which works out to about \$62 per square foot of site or \$41 per square foot of buildable space.

The land is worth more because of the rezoning. If the developer could acquire the site based on the existing zoned value, there would be a lift of about \$1.0 million or so in value after the site is rezoned. However, if the developer must pay the C-4 value then there is no lift from the developer's perspective. In this case, the market (i.e. sellers of development land) values land based on the future rezoning potential, not the current actual zoning. Because the market is working this way, there is in a sense a lost opportunity to achieve an amenity contribution of about \$1.0 million.

In these examples, the land market is paying for land based on OCP designations, not existing zoning, and consequently there is a lost opportunity to obtain voluntary amenity contributions. If the City decided that an amenity contribution should be associated with these rezonings notwithstanding the way the market currently works, one of two things will happen in the short term:

- The developer must try to acquire sites based on the value of existing zoning, which is lower than current market value. If land sellers are not willing to take this reduction in perceived value, they will not sell their land and the pace of development will slow.
- The developer must absorb the amenity contribution. Exhibit 3 can be used to show the impact on the developer if the developer pays the RM-5 price for land (\$2.2 million) and also must pay the City the implied lift in land value (\$200,000). Developer profit falls from about \$2.5 million (15% of revenue) to \$2.3 million (13.5% of revenue). This will not be acceptable to some developers, who may look elsewhere for opportunities and the pace of development will slow. Similarly, Exhibit 4 can be used to show what happens to the high-rise developer. Developer profit would fall by over \$1.0 million, from 15% of revenue to 11% of revenue, an even greater impact than in the lower density example.

If the City puts in place a new policy framework aimed at achieving amenity contributions at rezoning, the land market will adjust gradually (as it has in other communities), but there will be a challenging period of several years during which there is a risk that the pace of development slows and there is upward pressure on house prices.

Before addressing how the City might solve this problem (i.e. obtain more amenity contributions without causing short term negative impacts on the housing market), it is worth looking at the existing affordable housing density bonus system.

3.2 Existing Affordable Housing Approach in Kelowna

The City's current use of zoning to encourage the creation of affordable housing units has these main elements:

- Some of the City's multifamily residential zones include the ability to obtain additional density if the developer enters into a Housing Agreement with the City regarding the provision of affordable units.
- The additional density that can be obtained is either FAR 0.05 or FAR 0.1, depending on the zone. Examples include RM-3 (potential affordable housing bonus of 0.05), RM-5 (bonus of 0.1) and RM-6 (bonus of 0.1)
- The City's policy is that 50% of the bonus density must be used for the construction of affordable housing units within the project and 50% of the density can be used for additional market units within the project.
- The affordable units are units that have a covenant registered on title that requires they be sold at a maximum price that the City determines annually, taking into account average incomes, inflation and other factors. The 2007 affordable price is about \$149,000 per unit.
- The City does not define minimum unit size or features; the developer's obligation is simply to create a unit with the City-determined maximum selling price.
- The developer is responsible for ensuring that the first sale of the affordable unit is consistent with the City's price requirements; the obligation then runs with the unit, based on the covenant on title.

This is the system that has resulted in very little new construction of affordable housing units.

We analyzed the market and financial performance of this system by modeling some hypothetical projects based on current revenues and costs in Kelowna.

First, we examined a low-rise wood frame apartment in the RM-5 zone. Such a project can achieve FAR 1.3 without an affordable housing component and FAR 1.4 (i.e. the additional density is FAR 0.1) with an affordable housing component.

Using information from Exhibit 1, we can show the potential benefits and costs to a developer, assuming a hypothetical project on a 1 acre site.

The potential benefits are as follows:

- 50% of the density bonus can be used to develop additional market units. Assuming the developer paid for the site based on the maximum FAR 1.3, the value of the bonus in the hypothetical example is equal to site size multiplied by additional density multiplied by 50% (the share that is market housing) multiplied by land value per buildable square foot. The calculation is 43560 sq. ft. x 0.1 FAR x 50% x \$39 per square foot buildable, or about \$85,000.
- The 50% density bonus is equal to about 2178 square feet of space (for this illustrative one acre project). This will likely work out to two or three market units. The developer will earn additional profit on these units (in addition to the profit that would be earned on the “base” project built at FAR 1.3). However, this additional profit should not be thought of as an incentive, because the developer is absorbing the extra risk and cost of building the extra units.

The only real “bonus” or incentive in this project is the land value of the additional density for market units, estimated in this example at \$85,000.

Now this can be compared to the extra costs:

- The developer must build 50% of the extra density as affordable units. This is about 2178 square feet of space. Using numbers from Exhibit 1, the cost of frame construction is about \$195 per square foot (including all hard and soft costs but not including land cost or profit). However, the developer must also build the associated common areas, which work out to about 12% of total area, so the \$195 must be grossed up by about 12%, yielding an effective cost of about \$220 per square foot to build the affordable units. Total cost of the affordable units is, therefore, about \$480,000 (\$220 x 2178). The 2007 maximum affordable unit selling price, as determined by the City, is about \$149,000 per unit. Assuming the developer intends to break even, the developer will calculate that \$480,000 divided by \$149,000 is about 3 or 4 units. These units will be smaller than typical market units and are likely to be a very different design than the market units in the project. There is no financial cost or benefit, other than the risk (if any) of finding the buyers for the affordable housing units.
- The developer must absorb the additional legal fees associated with entering into the Housing Agreement with the City and will absorb additional architectural fees and project management time for incorporating these small units into the project. Somewhat arbitrarily, we assign a cost of \$25,000 to these extra fees and extra project management load.
- The developer must take the risk that the presence of the affordable units does not detract in any way from the sales performance (price or rate of unit sales) from any of the market units. This may seem like a small risk, but the numbers are interesting. Exhibit 1 shows that the hypothetical project includes 50 units (48 plus the 2 bonus market units), which are estimated

to sell for on the order of \$350,000 each. If the achieved average selling price falls by \$1700 per unit, all of the \$85,000 of benefit would be wiped out. There may not be a marketing impact, but a developer will be concerned that the introduction of a different kind of unit aimed at a different target market may affect, even if only slightly, the market's response to the project.

Comparing benefits and costs, by using the affordable housing mechanism the developer in this 1 acre, RM-5 example obtains a benefit of \$85,000, absorbs out of pocket costs of say \$25,000, and absorbs additional risk and project administration. A gain of say \$60,000 is small relative to the potential risks and hassle.

In a higher density project on a one acre site (say a 12 storey concrete building at FAR 1.5 in the C-4 zone), the maximum potential benefit (using numbers from Exhibit 4) is about \$90,000 ($43,560 \times 0.1 \text{ FAR} \times 50\% \times \41 per square foot buildable). All the same costs and concerns apply.

Note that in some existing zoning districts, the maximum additional gain in FAR is only 0.05, of which 50% is new market units. On a 1 acre site, with a wood frame apartment project, the additional market density would only have a value of \$43,000 ($43560 \times 0.05 \times 50\% \times \39), less the costs, risks, and concerns.

In our view, the existing mechanism does not produce enough benefit to be of interest to a developer. The costs, time, risk, and administration associated with the system are not worth the very small additional market density, so most developers are likely to not bother.

In addition, any units actually built will create an ongoing administration cost for the City, assuming the City wants to ensure that subsequent resales of affordable units comply with the "rules".

4.0 Evaluation of the Existing Situation

The current situation in Kelowna, regarding amenity contributions (including affordable housing) has two main problems:

- The land market is valuing development sites based on development potential indicated in the OCP, rather than based on existing zoning. This means there is no significant land value lift when properties are rezoned to match the density indicated in the OCP. With no land lift, there is no ability for developer's to make an amenity contribution at the time of rezoning.
- The existing affordable housing mechanism provides bonus density, that the market is apparently not capitalizing into land value, so there is "on paper" an incentive to provide affordable housing. However, the available density bonus is too small to be of interest; the disadvantages outweigh the advantages and it is not at all surprising that most projects do not try to use the available bonus.

5.0 Improving the City’s Approach to Affordable Housing Bonus and Amenity Contribution

Changes are needed in order to make the density bonus approach to affordable housing, and amenity contribution in general, more effective. The City could consider the following alternatives, which are listed in order of ascending complexity.

1. At least for small projects, allow developers to make a cash-in-lieu contribution instead of actually building a few affordable units.

In this system, the developer would pay 100% of the market land value of the density bonus into a fund that the City would manage. When sufficient funds were accumulated, the City would construct affordable housing units in a project.

Based on the low-rise project in Exhibit 1, the numbers would look like this:

- In RM-5, the density bonus would be the full FAR 0.1
 - A developer wanting to use the full maximum density (FAR 1.4) would have to make an affordable housing cash-in-lieu contribution equal to the value of the increase in FAR.
 - For the 1 acre site shown in Exhibit 1, the cash in lieu payment would be 43560 sq. ft. x FAR 0.1 x \$39, or about \$170,000.
 - All of the additional density would become market housing.
 - The City would place the \$170,000 in an affordable housing fund.
2. In addition to shifting to a cash-in-lieu approach, the City could increase the size of the density bonus for affordable housing. Rather than have zoning districts that have a maximum bonus of 0.05 or 0.1 FAR, the City could modify these zoning districts to add more bonus density that could be achieved without changing the structure type or the basic form and character intended in the zone.

The table below suggests some possible density increases to existing zoning districts.

Zoning District	Existing Base FAR	Existing Bonus FAR	Proposed Bonus FAR	Maximum FAR	Comments
RM-3	0.7	0.05	0.3	1.0	FAR 1.0 is a reasonable density for urban townhouse projects with enclosed parking.
RM-5	1.3	0.1	0.4	1.7	Density of 1.7 and higher (up to about 1.9) is achievable in 4 storey frame apartments with urban character.
RM-6	1.9	0.1	0.6	2.5	High rise residential can easily achieve density of 2.5+, depending on allowable height.

The density increases suggested above have the potential to generate much larger contributions for affordable housing:

- Exhibit 5 shows a financial analysis for a low-rise apartment project at FAR 1.7, assuming the zoning allows a base density of 1.3 and an affordable housing bonus of 0.4, for a maximum density of 1.7. As shown in the analysis, if the developer pays for the site based on the FAR 1.3 entitlement (assuming this is the current OCP designation), the developer can afford to make a cash in lieu amenity contribution of about \$667,000. This can be calculated roughly as $43,560 \times 0.4 \times \39 .
 - Exhibit 6 shows an analysis for a high-rise residential project at FAR 2.5 assuming the OCP contemplates base density of 1.9 and zoning allows an affordable housing bonus of 0.6, for a maximum density of 2.5. As shown in the analysis, if the developer pays for the site based on the FAR 1.9 entitlement, the developer can afford to make a cash contribution of almost \$1.1 million (calculated roughly as $43,560 \times 0.6 \times \41).
3. For rezonings not contemplated in the OCP, the City could immediately begin negotiating voluntary community amenity contributions commensurate with the increase in land value. If these rezonings are not contemplated in the existing OCP, the land market should not have already captured this value in the price of the development parcels. The City could negotiate combinations of land, facilities, or cash-in-lieu, or affordable housing units depending on the size, location, and nature of the development proposal.
 4. Another approach is to identify areas in which there are sound community planning reasons for encouraging densities that are higher than currently contemplated in the OCP. While the land market has been pricing development sites based on OCP designations, there is presumably no justification for paying for sites based on the prospect of even more density than contemplated in the Plan. There could be significant potential for amenity contributions if the City can find locations that are suitable for significant increases in designated density.

An example illustrates the potential for amenity contributions:

- Suppose a site is currently zoned for low density but designated for medium density residential in the OCP (say RM-3). In the Kelowna market, this site is presumably trading at a value based on RM-3, even though it is currently zoned for a lower density.
- Suppose based on a community plan review this site is regarded as a suitable location for high density residential development. However, in this scenario the City would make it clear that the new, higher designation will only lead to rezoning if the rezoning is associated with an appropriate amenity contribution. This signals the market to continue to pay for the site based on existing OCP designation, not the possible new higher density that might be considered with the appropriate amenity contribution.
- Exhibit 7 models the project assuming a 1 acre site, an approved density of FAR 2.5, land acquisition at a price based on FAR 1.3 (the current OCP designation, which already supports a higher value than existing zoning), and assuming that the lift in value (from low-rise at 1.3 to high-rise at 2.5) is an amenity contribution. As shown in the Exhibit, the community amenity contribution is almost \$2.3 million.

6.0 Conclusions

This is an interim report, so the findings and conclusions are subject to change based on further work. Based on the work so far, though, we offer these conclusions:

1. If the City wants to make policy changes that will result in more developer contributions to affordable housing, the City must make changes to the existing system. The current density bonus approach will not be effective, because the incentive offered is too small.
2. Rezoning practice and land market dynamics in Kelowna have created a market in which developers must pay for development sites based on OCP designations, not existing zoning. This eliminates some potential for obtaining amenity contributions, because the potential land lift for the rezoning from current zoning to OCP density has already been built into land purchase prices.
3. If the City tries to “claw back” the land lift for rezonings up to OCP densities, there will be a negative impact on the market. Developers will have trouble acquiring development sites and/or would have to experience reduced profit margins, either of which will result in a reduction in the pace of development which in turn will lead to upward pressure on housing prices in the whole market.
4. If the City does not want to try to claw back this land lift and is willing to work within the current market dynamic, there are several ways in which the City can increase the potential for affordable housing or amenity contributions:
 - The simplest change, that could be implemented immediately, would be to allow developers to obtain the already-defined affordable housing bonus by making a cash-in-lieu payment instead of building units. The payment should be equal to the value of the additional development rights. The funds would be collected by the City and pooled to create new affordable housing projects.
 - Another change that would require text amendments to existing zoning districts would be to increase the size of the affordable housing density bonus. Instead of allowing FAR 0.05 or 0.1, the bonus could be increased significantly depending on the zone. Assuming the intent would be to allow additional density that could be accommodated without changing the structure type and without dramatically altering form and character, there is potential to increase the bonus to about FAR 0.3 to 0.4 in the townhouse and low-rise apartment zones and 0.5 or more in high-rise zones.
 - The City could initiate a policy of negotiating amenity contributions on rezonings not contemplated in the current OCP. These contributions could be commensurate with the lift in land value.
 - A more complex change is to review the OCP and identify areas in which there is sound community planning rationale for a significant increase in density above the existing OCP

designation. These might be areas in or near downtown or other major commercial node, well-served with public transit, and near community recreation and health services. For these new density areas to create opportunities for amenity contribution, the new Plan would have to make it clear that the increase from existing OCP density to the proposed higher density can only be achieved if an appropriate amenity contribution is made.

Exhibits

Exhibit 1

Land Residual Estimate for Woodframe Apartment Project in the RM-5 District

Assumed Density of 1.30 FAR

Major Assumptions

Revenue and Value

Average Sales Price Per Sq. Ft. \$350.00 per sq.ft. of net saleable residential space

Site and Building Size

Site Size	43,560 sq.ft. or	1.0 acre
Assumed Density	1.30 FAR	
Total Space	56,628 sq.ft.	
Net Saleable Space	48,134 sq.ft. or	85.0% of gross area
Average Net Unit Size	1,000 sq.ft.	
Number of Units	48.0 units	
Number of Parking Stalls	1.50 per unit or	72 in total

Land Costs

Site Acquisition	\$0
Property Transfer Tax/Closing Cost	2.0%
Holding Costs on Land	7.0% per year

Construction Costs

Rezoning Costs	\$0
Hard Costs - Building	\$115 per gross sq.ft. of building
Hard Costs - Parking	\$30,000 per stall
Overall Hard Costs and servicing costs	\$153.14 per gross sq.ft. assuming underground parking
Premium on Hard Costs due to Ground Conditions	\$0.00 per gross sq.ft.
Soft Costs	10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.
Contingency on Hard and Soft Costs	5%
Regional District Levies	\$0.00 per apartment unit
City of Kelowna DCCs	\$10,002.00 per unit (assumes City Centre rate)
Amenity Contribution	\$0.00
Interim Financing on construction costs	7.0% on 50% of hard and soft costs (assuming a 15 month construction period)

Other Costs and Allowances

Marketing and Commissions	5.0% of gross revenue
Developer's Profit	15.0% of gross revenue
Property Tax Rate	0.650% of assessed value
Assessed Value Assumed to be	\$2,200,000 in Year 1 of construction (and approvals)
	\$8,423,415 in Year 2 of construction (50% of finished value)

Analysis

Land Costs	
Acquisition	\$0
Transfer Tax and Closing Cost	\$0
Holding Costs	\$0
Total Land Costs	\$0

Revenue

Gross Sales Revenue	\$16,846,830
Less Marketing and Commissions	\$842,342
Net Sales Revenue	\$16,004,489

Construction Costs

Rezoning Costs	\$0
Hard Construction Costs	\$8,672,220
Premium Due to Ground Conditions	\$0
Soft Costs	\$867,222
Contingency on Hard and Soft Costs	\$433,611
Regional District Levies	\$0
City of Kelowna DCCs	\$480,096
Amenity Contribution	\$0
Property Taxes During Approvals/Development	\$35,138
Interim Financing	\$458,863
Total Construction Costs	\$10,947,150
Total Construction Costs per sq.ft.	\$193.32

Developer's Profit \$2,527,025

Residual to Land and Land Carry	\$2,530,314
Less interim financing on land for 21 months (7%)	\$276,753
Less property purchase tax	\$43,071
Residual Land Value	\$2,210,490

Residual Value per sq.ft. of site	\$50.75
Residual Value per sq.ft. buildable	\$39.04

Exhibit 2
Land Residual Estimate for Woodframe Townhouse Project in the RM-3 District
Assumed Density 0.70 FAR

Major Assumptions

Revenue and Value

Average Sales Price Per Sq. Ft. \$300.00 per sq.ft. of net saleable residential space

Site and Building Size

Site Size	43,560 sq.ft. or	1.0 acre
Assumed Density	0.70 FAR	
Total Space	30,492 sq.ft.	
Net Saleable Space	30,492 sq.ft. or	100.0% of gross area
Average Net Unit Size	1,500 sq.ft.	
Number of Units	20.0 units	
Number of Parking Stalls	2.00 per unit or	40 in total

Land Costs

Site Acquisition	\$0
Property Transfer Tax/Closing Cost	2.0%
Holding Costs on Land	7.0% per year

Construction Costs

Rezoning Costs	\$0
Hard Costs - Building	\$115 per gross sq.ft. of building
Hard Costs - Parking	\$12,500 per stall (assuming garage parking)
Overall Hard Costs and servicing costs	\$131.40 per gross sq.ft. assuming underground parking
Premium on Hard Costs due to Ground Conditions	\$0.00 per gross sq.ft.
Soft Costs	10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.
Contingency on Hard and Soft Costs	5%
Regional District Levies	\$0.00 per apartment unit
City of Kelowna DCCs	\$10,527.00 per unit (assumes City Centre rate)
Amenity Contribution	\$0.00
Interim Financing on construction costs	7.0% on 50% of hard and soft costs (assuming a 15 month construction period)

Other Costs and Allowances

Marketing and Commissions	5.0% of gross revenue
Developer's Profit	15.0% of gross revenue
Property Tax Rate	0.650% of assessed value
Assessed Value Assumed to be	\$1,900,000 in Year 1 of construction (and approvals)
	\$4,573,800 in Year 2 of construction (50% of finished value)

Analysis

Land Costs	
Acquisition	\$0
Transfer Tax and Closing Cost	\$0
Holding Costs	\$0
Total Land Costs	\$0

Revenue

Gross Sales Revenue	\$9,147,600
Less Marketing and Commissions	\$457,380
Net Sales Revenue	\$8,690,220

Construction Costs

Rezoning Costs	\$0
Hard Construction Costs	\$4,006,580
Premium Due to Ground Conditions	\$0
Soft Costs	\$400,658
Contingency on Hard and Soft Costs	\$200,329
Regional District Levies	\$0
City of Kelowna DCCs	\$210,540
Amenity Contribution	\$0
Property Taxes During Approvals/Development	\$25,957
Interim Financing	\$211,928
Total Construction Costs	\$5,055,992
Total Construction Costs per sq.ft.	\$165.81

Developer's Profit \$1,372,140

Residual to Land and Land Carry	\$2,262,088
Less interim financing on land for 21 months (7%)	\$247,416
Less property purchase tax	\$38,293
Residual Land Value	\$1,976,378

Residual Value per sq.ft. of site	\$45.37
Residual Value per sq.ft. buildable	\$64.82

Exhibit 3
Land Residual Estimate for Woodframe Project in the C-3 District
Assumed Density of 1.00 FAR

Major Assumptions

Revenue and Value

Average Sales Price Per Sq. Ft. \$350.00 per sq.ft. of net saleable residential space

Site and Building Size

Site Size	43,560 sq.ft. or	1.0 acre
Assumed Density	1.00 FAR	
Total Space	43,560 sq.ft.	
Net Saleable Space	37,026 sq.ft. or	85.0% of gross area
Average Net Unit Size	1,000 sq.ft.	
Number of Units	37.0 units	
Number of Parking Stalls	1.50 per unit or	56 in total

Land Costs

Site Acquisition	\$0
Property Transfer Tax/Closing Cost	2.0%
Holding Costs on Land	7.0% per year

Construction Costs

Rezoning Costs	\$0
Hard Costs - Building	\$115 per gross sq.ft. of building
Hard Costs - Parking	\$30,000 per stall
Overall Hard Costs and servicing costs	\$153.22 per gross sq.ft. assuming underground parking
Premium on Hard Costs due to Ground Conditions	\$0.00 per gross sq.ft.
Soft Costs	10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.
Contingency on Hard and Soft Costs	5%
Regional District Levies	\$0.00 per apartment unit
City of Kelowna DCCs	\$10,002.00 per unit (assumes City Centre rate)
Amenity Contribution	\$0.00
Interim Financing on construction costs	7.0% on 50% of hard and soft costs (assuming a 15 month construction period)

Other Costs and Allowances

Marketing and Commissions	5.0% of gross revenue
Developer's Profit	15.0% of gross revenue
Property Tax Rate	0.650% of assessed value
Assessed Value Assumed to be	\$1,700,000 in Year 1 of construction (and approvals) \$6,479,550 in Year 2 of construction (50% of finished value)

Analysis

Land Costs	
Acquisition	\$0
Transfer Tax and Closing Cost	\$0
Holding Costs	\$0
Total Land Costs	\$0

Revenue

Gross Sales Revenue	\$12,959,100
Less Marketing and Commissions	\$647,955
Net Sales Revenue	\$12,311,145

Construction Costs

Rezoning Costs	\$0
Hard Construction Costs	\$6,674,400
Premium Due to Ground Conditions	\$0
Soft Costs	\$667,440
Contingency on Hard and Soft Costs	\$333,720
Regional District Levies	\$0
City of Kelowna DCCs	\$370,074
Amenity Contribution	\$0
Property Taxes During Approvals/Development	\$27,104
Interim Financing	\$353,182
Total Construction Costs	\$8,425,921
Total Construction Costs per sq.ft.	\$193.43

Developer's Profit \$1,943,865

Residual to Land and Land Carry \$1,941,359

Less interim financing on land for 21 months (7%) \$206,797

Less property purchase tax \$32,691

Residual Land Value \$1,701,871

Residual Value per sq.ft. of site \$39.07

Residual Value per sq.ft. buildable \$39.07

Exhibit 4
Land Residual Estimate for a 12 Storey Highrise Project in the C-4 District
Assumed Density of 1.50 FAR

Major Assumptions

Revenue and Value

Average Sales Price Per Sq. Ft. \$500.00 per sq.ft. of net saleable residential space

Site and Building Size

Site Size	43,560 sq.ft. or	1.0 acre
Assumed Density	1.50 FAR	
Total Space	65,340 sq.ft.	
Net Saleable Space	56,846 sq.ft. or	87.0% of gross area
Average Net Unit Size	1,000 sq.ft.	
Number of Units	57.0 units	
Number of Parking Stalls	1.50 per unit or	86 in total

Land Costs

Site Acquisition	\$0
Property Transfer Tax/Closing Cost	2.0%
Holding Costs on Land	7.0% per year

Construction Costs

Rezoning Costs	\$0
Hard Costs - Building	\$200 per gross sq.ft. of building
Hard Costs - Parking	\$30,000 per stall
Overall Hard Costs and servicing costs	\$239.26 per gross sq.ft. assuming underground parking
Premium on Hard Costs due to Ground Conditions	\$0.00 per gross sq.ft.
Soft Costs	10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.
Contingency on Hard and Soft Costs	5%
Regional District Levies	\$0.00 per apartment unit
City of Kelowna DCCs	\$10,002.00 per unit (assumes City Centre rate)
Amenity Contribution	\$0.00
Interim Financing on construction costs	7.0% on 50% of hard and soft costs (assuming an 18 month construction period)

Other Costs and Allowances

Marketing and Commissions	5.0% of gross revenue
Developer's Profit	15.0% of gross revenue
Property Tax Rate	0.650% of assessed value
Assessed Value Assumed to be	\$2,600,000 in Year 1 of construction (and approvals)
	\$14,211,450 in Year 2 of construction (50% of finished value)

Analysis

Land Costs	
Acquisition	\$0
Transfer Tax and Closing Cost	\$0
Holding Costs	\$0
Total Land Costs	\$0

Revenue

Gross Sales Revenue	\$28,422,900
Less Marketing and Commissions	\$1,421,145
Net Sales Revenue	\$27,001,755

Construction Costs

Rezoning Costs	\$0
Hard Construction Costs	\$15,633,000
Premium Due to Ground Conditions	\$0
Soft Costs	\$1,563,300
Contingency on Hard and Soft Costs	\$781,650
Regional District Levies	\$0
City of Kelowna DCCs	\$570,114
Amenity Contribution	\$0
Property Taxes During Approvals/Development	\$71,537
Interim Financing	\$977,529
Total Construction Costs	\$19,597,130
Total Construction Costs per sq.ft.	\$299.93

Developer's Profit \$4,263,435

Residual to Land and Land Carry	\$3,141,190
Less interim financing on land for 24 months (7%)	\$382,406
Less property purchase tax	\$53,176
Residual Land Value	\$2,705,608

Residual Value per sq.ft. of site	\$62.11
Residual Value per sq.ft. buildable	\$41.41

Exhibit 5

Lowrise Project in a Revised RM-5 District with Higher Density

Assumed Maximum Density

1.70 FAR

Land Acquired at Base Density (1.3 FAR); Amenity Contribution Based on Land Lift

Major Assumptions

Revenue and Value

Average Sales Price Per Sq. Ft. \$350.00 per sq.ft. of net saleable residential space

Site and Building Size

Site Size	43,560 sq.ft. or	1.0 acre
Assumed Density	1.70 FAR	
Total Space	74,052 sq.ft.	
Net Saleable Space	62,944 sq.ft. or	85.0% of gross area
Average Net Unit Size	1,000 sq.ft.	
Number of Units	63.0 units	
Number of Parking Stalls	1.50 per unit or	95 in total

Land Costs

Site Acquisition	\$2,210,000
Property Transfer Tax/Closing Cost	2.0%
Holding Costs on Land	7.0% per year (for 21 months)

Construction Costs

Rezoning Costs	\$0
Hard Costs - Building	\$115 per gross sq.ft. of building
Hard Costs - Parking	\$30,000 per stall
Overall Hard Costs and servicing costs	\$153.28 per gross sq.ft. assuming underground parking
Premium on Hard Costs due to Ground Conditions	\$0.00 per gross sq.ft.
Soft Costs	10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.
Contingency on Hard and Soft Costs	5%
Regional District Levies	\$0.00 per apartment unit
City of Kelowna DCCs	\$10,002.00 per unit (assumes City Centre rate)
Amenity Contribution	\$667,000
Interim Financing on construction costs	7.0% on 50% of hard and soft costs (assuming a 15 month construction period)

Other Costs and Allowances

Marketing and Commissions	5.0% of gross revenue
Property Tax Rate	0.650% of assessed value
Assessed Value Assumed to be	\$2,200,000 in Year 1 of construction (and approvals)
	\$11,015,235 in Year 2 of construction (50% of finished value)

Analysis

Land Costs	
Acquisition	\$2,210,000
Transfer Tax and Closing Cost	\$44,200
Holding Costs	\$276,140
Total Land Costs	\$2,530,340

Revenue

Gross Sales Revenue	\$22,030,470
Less Marketing and Commissions	\$1,101,524
Net Sales Revenue	\$20,928,947

Construction Costs

Rezoning Costs	\$0
Hard Construction Costs	\$11,350,980
Premium Due to Ground Conditions	\$0
Soft Costs	\$1,135,098
Contingency on Hard and Soft Costs	\$567,549
Regional District Levies	\$0
City of Kelowna DCCs	\$630,126
Amenity Contribution	\$667,000
Property Taxes During Approvals/Development	\$39,350
Interim Financing	\$629,567
Total Construction Costs	\$15,019,670
Total Construction Costs per sq.ft.	\$203

Profit

Profit	\$3,378,937
Profit as % of Total Revenue	15.3%
Profit as % of Total Costs	18.1%

Exhibit 6
Highrise Project (20 Storeys) in a Revised RM-6 District with Higher Density
Assumed Maximum Density 2.50 FAR
Land Acquired at Base Density (1.9 FAR); Amenity Contribution Based on Land Lift

Major Assumptions

Revenue and Value

Average Sales Price Per Sq. Ft. \$500.00 per sq.ft. of net saleable residential space

Site and Building Size

Site Size	43,560 sq.ft. or	1.0 acre
Assumed Density	2.50 FAR	
Total Space	108,900 sq.ft.	
Net Saleable Space	94,743 sq.ft. or	87.0% of gross area
Average Net Unit Size	1,000 sq.ft.	
Number of Units	95.0 units	
Number of Parking Stalls	1.50 per unit or	143 in total

Land Costs

Site Acquisition	\$3,440,000
Property Transfer Tax/Closing Cost	2.0%
Holding Costs on Land	7.0% per year (for 24 months)

Construction Costs

Rezoning Costs	\$0
Hard Costs - Building	\$200 per gross sq.ft. of building
Hard Costs - Parking	\$30,000 per stall
Overall Hard Costs and servicing costs	\$239.26 per gross sq.ft. assuming underground parking
Premium on Hard Costs due to Ground Conditions	\$0.00 per gross sq.ft.
Soft Costs	10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.
Contingency on Hard and Soft Costs	5%
Regional District Levies	\$0.00 per apartment unit
City of Kelowna DCCs	\$10,002.00 per unit (assumes City Centre rate)
Amenity Contribution	\$1,070,000.00
Interim Financing on construction costs	7.0% on 50% of hard and soft costs (assuming an 18 month construction period)

Other Costs and Allowances

Marketing and Commissions	5.0% of gross revenue
Developer's Profit	15.0% of gross revenue
Property Tax Rate	0.650% of assessed value
Assessed Value Assumed to be	\$3,400,000 in Year 1 of construction (and approvals) \$23,685,750 in Year 2 of construction (50% of finished value)

Analysis

Land Costs	
Acquisition	\$3,440,000
Transfer Tax and Closing Cost	\$68,800
Holding Costs	\$491,232
Total Land Costs	\$4,000,032

Revenue

Gross Sales Revenue	\$47,371,500
Less Marketing and Commissions	\$2,368,575
Net Sales Revenue	\$45,002,925

Construction Costs

Rezoning Costs	\$0
Hard Construction Costs	\$26,055,000
Premium Due to Ground Conditions	\$0
Soft Costs	\$2,605,500
Contingency on Hard and Soft Costs	\$1,302,750
Regional District Levies	\$0
City of Kelowna DCCs	\$950,190
Amenity Contribution	\$1,070,000
Property Taxes During Approvals/Development	\$110,129
Interim Financing	\$1,684,912
Total Construction Costs	\$33,778,481
Total Construction Costs per sq.ft.	\$310.18

Developer's Profit

Developer's Profit	\$7,224,412
Profit as % of Total Revenue	15.3%
Profit as % of Total Costs	18.0%

Exhibit 7

Redesignate Lowrise Land to Allow Highrise Project (20 Storeys) in a Revised RM-6 District

Assumed Maximum Density 2.50 FAR

Land Acquired at Base Density (1.3 FAR); Amenity Contribution Based on Land Lift

Major Assumptions

Revenue and Value

Average Sales Price Per Sq. Ft. \$500.00 per sq.ft. of net saleable residential space

Site and Building Size

Site Size	43,560 sq.ft. or	1.0 acre
Assumed Density	2.50 FAR	
Total Space	108,900 sq.ft.	
Net Saleable Space	94,743 sq.ft. or	87.0% of gross area
Average Net Unit Size	1,000 sq.ft.	
Number of Units	95.0 units	
Number of Parking Stalls	1.50 per unit or	143 in total

Land Costs

Site Acquisition	\$2,210,000
Property Transfer Tax/Closing Cost	2.0%
Holding Costs on Land	7.0% per year (for 24 months)

Construction Costs

Rezoning Costs	\$0
Hard Costs - Building	\$200 per gross sq.ft. of building
Hard Costs - Parking	\$30,000 per stall
Overall Hard Costs and servicing costs	\$239.26 per gross sq.ft. assuming underground parking
Premium on Hard Costs due to Ground Conditions	\$0.00 per gross sq.ft.
Soft Costs	10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.
Contingency on Hard and Soft Costs	5%
Regional District Levies	\$0.00 per apartment unit
City of Kelowna DCCs	\$10,002.00 per unit (assumes City Centre rate)
Amenity Contribution	\$2,300,000.00
Interim Financing on construction costs	7.0% on 50% of hard and soft costs (assuming an 18 month construction period)

Other Costs and Allowances

Marketing and Commissions	5.0% of gross revenue
Developer's Profit	15.0% of gross revenue
Property Tax Rate	0.650% of assessed value
Assessed Value Assumed to be	\$2,200,000 in Year 1 of construction (and approvals) \$23,685,750 in Year 2 of construction (50% of finished value)

Analysis

Land Costs	
Acquisition	\$2,210,000
Transfer Tax and Closing Cost	\$44,200
Holding Costs	\$315,588
Total Land Costs	\$2,569,788

Revenue

Gross Sales Revenue	\$47,371,500
Less Marketing and Commissions	\$2,368,575
Net Sales Revenue	\$45,002,925

Construction Costs

Rezoning Costs	\$0
Hard Construction Costs	\$26,055,000
Premium Due to Ground Conditions	\$0
Soft Costs	\$2,605,500
Contingency on Hard and Soft Costs	\$1,302,750
Regional District Levies	\$0
City of Kelowna DCCs	\$950,190
Amenity Contribution	\$2,300,000
Property Taxes During Approvals/Development	\$98,429
Interim Financing	\$1,748,873
Total Construction Costs	\$35,060,742
Total Construction Costs per sq.ft.	\$321.95

Developer's Profit

Developer's Profit	\$7,372,395
Profit as % of Total Revenue	15.6%
Profit as % of Total Costs	18.4%