Affordable Housing and Amenity Contributions from Urban Development Projects in Kelowna

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1.0 Introduction

1.1 Scope

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.

The full scope of this analysis can be characterized as providing answers to these four questions:

- 1. What mechanisms can the City use to obtain amenity, infrastructure, and affordable housing contributions from new urban development projects?
- 2. What kinds of amenities should the City be trying to obtain and where does affordable housing sit in the priority list?
- 3. How can the City improve its approach to obtaining amenity contributions?
- 4. What tools other than amenity contributions can the City use to facilitate the creation of affordable housing?

1.2 Process

This project has included technical analysis and consultation with the Kelowna development community. The main steps in the process were:

- 1. We made an initial presentation to City Council in which we described the work we would do, we outlined the economic fundamentals of density bonusing and voluntary amenity contributions, and we described current practises in other municipalities.
- 2. We also had an initial workshop with representatives of the Kelowna development community. At this workshop, we described our scope of work, we walked through the principles of amenity density bonusing, and we gathered input about current land market dynamics in Kelowna.

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- 3. We completed all of our technical analysis, including detailed market and financial analysis of residential development in Kelowna, and we outlined our preliminary conclusions and recommendations.
- 4. We presented our preliminary conclusions and recommendations to the development community, City Council, and Council advisory committees.
- 5. Using feedback from the groups we met with, we refined our recommendations and produced this final report.

2.0 Background: The Need for Amenity Contributions and the Tools for Obtaining Them

As a starting point, this section provides some general background on why local governments seek amenity contributions from urban development projects and it summarizes the existing legislative context in BC that enables municipalities to obtain these contributions.

Almost all municipalities absorb urban growth in order to provide housing to accommodate population growth and to expand their commercial and industrial base. Municipalities generally want urban development because it can increase the amount and diversity of housing stock, add jobs, enhance the local economy, add more support for local businesses, and add more support for community services.

However, urban growth comes at a cost: new residents and new employees place demands on community infrastructure and amenities which must be expanded or upgraded to meet this increased need. Growth can also put upward pressure on land values and housing prices, making the community less affordable for some residents.

Municipalities, therefore, must have a strategy to pay for the capital costs of infrastructure and amenities that are necessary to create attractive, livable communities. They may also want a strategy for addressing concerns about housing affordability. There are not many options for municipalities to raise the revenue to fund these amenities. While some funds are available from the provincial and federal governments, and some municipalities obtain some revenue from non-traditional sources such as casinos, the bulk of the revenue to fund new capital projects must come from property taxes or from development project contributions.

There is almost always strong pressure from existing residents and businesses to avoid property tax increases, particularly to pay for facilities that are viewed as meeting the needs of "new" residents. It is theoretically possible to cover all capital costs through property tax (either out of current revenues, accumulated surpluses, or tax-supported debt), but in practice municipalities do not structure their finances this way. Municipalities in BC tend to set property tax rates to cover operating costs and a portion of their capital expenditures, but not to cover all capital costs associated with growth. For most municipal councils, there is a compelling logic to trying to make growth pay for the costs of growth.

At the same time, municipalities that want to attract urban development are sensitive to the criticism that development fees or amenity contributions can make new development less viable or less affordable. So, Councils try to find an acceptable balance. They seek to be supportive of new development and community growth while ensuring that development projects make a "fair" contribution to capital costs, thereby assuring existing residents and businesses that they are not somehow subsidizing developers.

In BC, municipalities have three main tools they can use to obtain amenity or infrastructure contributions from development projects:

- Direct provision of works or lands.
- Development cost charges (DCCs).
- Zoning-based contributions including density bonus zoning and voluntary amenity contributions at rezoning.

2.1 Direct Provision of Works or Lands

The most direct way in which new urban development can contribute to the capital cost of growth is the provision of works. Municipalities routinely require development projects to construct or pay for works and services that are adjacent to development sites or that are directly required to serve the proposed development. The legal authority to require works and services associated with lands proposed for subdivision and/or development is found in Section 938 of the *Local Government Act*, which allows municipalities to require projects to pay for hard infrastructure that is directly attributable to the project. Typically, this tool is used to require projects to pay for upgrading adjacent streets and services or to pay for nearby improvements (e.g. pump stations, intersection upgrades).

Municipalities can require land dedication for park or road widening purposes from properties that are being subdivided. Section 941 of the *Local Government Act* enables municipalities to require the dedication of up to 5% of site area for open space, if a property is being subdivided. However, this tool is not typically applicable in an existing urban area undergoing redevelopment, which usually does not involve subdivision.

2.2 Development Cost Charges

Urban development projects impose a load on area-wide infrastructure, although usually each new project adds a small increment to total demand and does not, of itself, trigger the need for expansions or upgrades. Development cost charges (DCCs) are a means of collecting fees from projects so that these fees can be pooled to fund area-wide infrastructure improvements necessitated by growth. Sections 932 to 937 of the *Local Government Act* enable municipalities to levy charges on new development to pay for basic community infrastructure.

DCCs can only be collected for water, sewer, roads, drainage and park land acquisition (and some limited park land improvements). The funds must be expended on the purpose for which they were levied and must be spent within the defined geographic area in which they were collected.

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The DCC rates are set in each municipality based on analysis of future servicing requirements and detailed analysis of capacity for additional development, so that each new residential unit or increment in commercial or industrial space pays its proportionate share of overall cost.

DCCs are an important component in every community's strategy to pay for the infrastructure costs of growth. There is one major drawback to DCCs, though: they are only applicable to basic infrastructure requirements in a community. DCCs cannot be used to raise revenue for recreational facilities, cultural facilities, library, emergency service facilities (e.g. fire halls or police stations), or many other essential elements of community building.

2.3 Zoning-Based Approaches

Because of the limited applicability of DCCs, municipalities must look for other means to generate capital funds for other kinds of amenities and infrastructure that are needed to create livable communities, meet the needs of new residents, and provide the kinds of public benefits that make existing residents more willing to accept growth and densification. Municipalities must also look for other means if they want to obtain contributions to affordable housing.

In BC, there are two widely-used ways in which municipal zoning powers are used to obtain amenity contributions:

- Amenity density bonus zoning.
- Voluntary amenity contributions at rezoning.

2.3.1 Density Bonus Zoning

Amenity density bonus zoning is enabled by Section 904 of the *Local Government Act*. This section gives municipalities the power to use zoning regulations (specifically density controls) to obtain community amenities.

Zoning regulations typically define the allowable uses, density, height, and other parameters for urban development. Section 904 allows a zoning regulation to set out one density for projects that do not provide a community amenity and a different (higher) density for projects that do provide community amenity in accordance with the conditions included in the bylaw.

As an example, a zoning district for low-rise apartments might allow a maximum density of 1.3 FAR. An amenity density bonus zone for low-rise apartments might allow a base density of 1.3 FAR that can be achieved without an amenity contribution and additional density if the project provides an appropriate amenity contribution. This is the approach that Kelowna is currently using to try to achieve the construction of some affordable housing units. For example, in the RM-5 zone, Kelowna permits a base density of FAR 1.3 (in a project with structured parking) plus a bonus of FAR 0.1 (bringing the maximum allowable density to FAR 1.4) by making the prescribed contribution to affordable bonusing.

Section 904 indicates that the density bonus zone should specify the "number, kind and extent" of amenity that must be provided to earn the additional density. This language suggests that amenities should be well-defined and should be in the form of an actual physical amenity provided on the development site that is obtaining the bonus density. So, one way to structure an amenity density zone is to specify the amenity that must be provided, such as child care space, on-site open space, or affordable housing. However, many urban development projects are too small to actually accommodate a physical amenity on site and in some cases the most-needed amenities are large facilities that could not be provided by one project. Consequently, some municipalities have developed a cash-in-lieu approach to amenity contributions so that every project can obtain bonus density by making a contribution to a fund that is used to provide community amenities.

There are several ways a density bonus zoning system can be structured, but they are all based on the same principle: the bylaw defines a base density that can be achieved without an amenity contribution and defines additional density that can be achieved if the project provides an amenity (or cash-in-lieu) in accordance with requirements set out in the bylaw.

For this approach to be successful, it is necessary that developers buy development sites at a price based on the outright density, so that they are able to make the amenity contribution for the additional density. 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 to the municipality.

2.3.2 Voluntary Contributions at Rezoning

This approach offers the greatest flexibility and the greatest opportunity to obtain public benefits from development projects, but it can involve a significant amount of work on the part of the municipality.

The concept of voluntary amenity contributions at rezoning is based on three fundamental points about the urban development process:

Municipalities have the discretionary authority to rezone or not to rezone property. In considering a rezoning, municipal Councils are responsible for determining whether or not a rezoning is in the community's interest. Councils should consider whether a project generates sufficient community benefits to offset any potential negative impacts of the project and they should consider whether a project will impose unacceptable capital cost burdens (for new infrastructure or amenities) on the community.

- Rezoning typically results in an increase in land value, as well as the creation of a profitable development opportunity. Developers require a profit in order to justify making an investment and taking risk in developing a project, but a development project does not have to include a significant gain in land value in order to be viable. This is evident from the fact that many financially successful development projects occur on already-zoned land; the developer pays market value for zoned land and completes a viable project. So, the lift in land value associated with a rezoning does not have to be part of a developer's revenue in order for a project to work.
- The lift in land value associated with a rezoning can end up in three possible places. The original land owner (who sells the land to the developer) can keep the lift, in effect by selling land based on the anticipated new zoning rather than existing zoning. This often occurs in areas where rezoning is easy to obtain, developers are willing to pay in advance for the value associated with the anticipated new zoning, and there is no mechanism for the lift in land value to be shifted away from the land owner. Or, the developer can retain the lift in land value, if rezoning is perceived as risky and/or costly to the extent that developers are not willing to pay for land based on new zoning; they take a risk in the rezoning process and the reward for success is the land value conferred by zoning. Lastly, the municipality (or in other words the community) can capture some or all of the lift in land value in the form of amenity contributions. This results when (a) OCP policy clearly indicates where rezoning is acceptable and Councils consistently act in accordance with their policies, such that rezoning is not particularly risky, (b) it is well known in the land market that the municipality will expect to receive voluntary amenity contributions from rezonings, so developers will pay for land based on existing value not re-zoned value, and (c) there is a consistent application of a community amenity contribution policy that developers can predict and factor into their financial analysis and their land purchase decisions.

For this approach to be successful, 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".

Voluntary amenity contributions at rezoning are becoming increasingly common in many BC municipalities. In simple terms, the prevailing view in these communities is along these lines: urban growth is desirable when in generates public benefits and minimizes capital cost burdens on the community; rezoning usually increase the value of development sites but development on rezoned land does not need to be significantly more profitable than similar development on already-zoned land; so, there needs to be a mechanism to translate the lift in land value into public benefits as part of the rezoning process. The mechanism is the negotiation of amenity contributions during the approvals process.

Land markets in BC can be divided into three categories, in terms of the potential to achieve negotiated amenity contributions:

- Communities in which there has been a system of amenity contributions in place for a while. 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.

2.4 Integrating the Approaches

Each of the approaches outlined above has advantages and disadvantages, such that no one approach optimizes a community's ability to obtain amenity and infrastructure contributions from development.

All of the approaches can be combined in a comprehensive strategy that allows (and even encourages) development while achieving appropriate public benefits:

- Municipalities should use their authority to require direct provision of works and lands, because this mechanism can be applied to all projects (regardless of whether rezoning is involved) and because it is a way to ensure that development projects address the immediate impact on local infrastructure.
- Municipalities should use their DCC powers to require all projects (regardless of whether rezoning is involved) to contribute to area-wide infrastructure that is necessary to accommodate growth.
- Municipalities should use their zoning-based ability to obtain amenity contributions to obtain amenities that are an essential part of community building but that cannot be obtained via DCCs or direct contribution of works and land.

3.0 Density Bonusing: How it Works

This section describes in more detail how amenity density bonusing works in theory and in practice. The section describes how a density bonus zoning regulation works, the conditions necessary for a density bonus system to be successful, the effect of density bonusing on the financial performance of development projects (from the perspective of developers, land sellers, and the municipality), and the different ways in which municipalities can define the amenity contributions that must be made to obtain the bonus density.

Basic Structure of a Density Bonus Zone

Density bonusing is straightforward. A density bonus zoning district defines a base or outright density that can be achieved if no amenity contribution is made and also defines a higher density that can be achieved if the prescribed amenity contribution is made. Zoning parameters such as allowable height, maximum site coverage, parking requirements, and required setbacks must be set so as to ensure that the additional bonus density can actually be accommodated on the site.

The municipality defines in a zoning schedule the amenity contribution that the developer must make in order to obtain the bonus. There are three different approaches that are used by municipalities in BC:

- The bylaw could specify an actual physical amenity that must be provided on site, such as onsite day care space (in accordance with defined criteria) or some specified type of affordable housing units.
- The bylaw could specify a cash-in-lieu payment (expressed in dollars per additional unit or dollars per additional square foot of space) that must be made to obtain the additional density. Such a bylaw would likely indicate the purpose for which the funds will be used (e.g. contribution to construction of a library or the construction of affordable housing).
- The bylaw could specify that the amenity is to be determined in consultation with the municipality and could further specify that the value of the amenity (or the value of a cash-inlieu payment) is meant to be equal to the market land value of the additional density. This requires analysis at the time of submitting a development application to determine the gain in land value associated with the additional density.

Financial Analysis

Table 1 below illustrates how the calculations work for a hypothetical small low-rise apartment project. The figures in Table 1 approximate current market conditions in Kelowna, but the purpose of the Table is mainly to illustrate some fundamental points about density bonusing so the figures are simplified and rounded.

	Scenario 1: Development at Base Density	Scenario 2: Development with Bonus Density
Site Size	30,000 sq. ft.	30,000 sq. ft.
FAR	1.3	1.3 + 0.1 bonus = 1.4
Floorspace (Gross)	39,000 sq. ft.	42,000 sq. ft.
Units (@ 1,000 sq. ft. net)	33	36
Sales Revenue ¹	\$11,550,000	\$12,600,000
Total Development Cost ²	\$8,250,000	\$9,000,000
Amenity Contribution ³	0	\$120,000
Land Cost	\$1,560,000	\$1,560,000
Developer Profit ⁴	\$1,740,000	\$1,920,000

Table 4. Cause	all Development	···· Calandada a confer		ALL DIAL MALE ALL DA	
Table 1: Sam	DIE DENSITV KOR	us calculations to	r a hypothetical i	OW-RISE WOOD-Fr	ame Abartment
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Scenario 1 shows a development at a base density of 1.3 FAR, which is assumed in this case to be achievable without any amenity contribution. In this scenario, the developer pays \$1,560,000 for a 30,000 square foot site on which 39,000 square feet of residential space can be built. The land purchase price is equal to \$40 per square foot of buildable space (i.e. \$1,560,000 divided by 39,000 sq. ft.). The developer earns a profit of \$1,740,000, which is equal to about 15% of gross revenue, a typical development industry target for profit margin. This project "works" financially from the developer's perspective.

Scenario 2 shows how the numbers work if this site is in a density bonus zone that allows the developer to achieve a total 1.4 FAR (the base 1.3 FAR as in Scenario 1 plus an additional 0.1 FAR). The project increases from 33 units to 36, so sales revenue and total development cost rise commensurately. The developer makes a cash-in-lieu amenity contribution, which in this example is assumed to be paid at a rate of \$40 for each additional square foot of allowable space (i.e. 30,000 square foot site times bonus 0.1 FAR times \$40), or \$120,000. The purchase price for the development site remains the same (\$1,560,000). This is a crucial part of the analysis, because the developer must pay for the site as though it is zoned for the based density of 1.3

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¹ Assumed sales price is \$350,000 per unit.

² Including marketing, DCCs, all hard and soft costs, and interim financing but not including land; the total cost is about \$250,000 per unit.

³ There is no amenity contribution in Scenario 1; in Scenario 2 the amenity contribution is \$40 for each additional square foot of space.

⁴ The target profit margin is 15% of revenue.

FAR, knowing that the bonus density can only be obtained by making the amenity contribution to the municipality. Developer's profit is numerically larger than in Scenario 1 (which makes sense because the project is larger), but is equal to 15% of revenue.

The following important points are illustrated by Table 1:

- The density bonus system allows more units to be developed because of the higher density, so land is being used more intensively.
- The amenity contribution payment to the City does not impair the profitability of the development project. With the extra density, the developer builds a larger project and is still able to achieve the target profit margin of 15% of gross revenue (which is a larger dollar amount because the project is larger).
- The amenity contribution (in this case) is equal to the land value associated with the additional density. In effect, it is as though the developer bought a site with an allowable FAR of 1.4, except that the land purchase is in two components: the purchase price paid to the land seller based on allowable density of 1.3 FAR (\$1,560,000) and the amenity contribution of \$120,000 paid to the municipality for the additional 0.1 FAR.

Conditions for Successful Implementation

For this approach to be viable in a community, there are some conditions that must be true:

- The extra density must be appropriate in community planning terms and must be capable of being accommodated on the site without unacceptable impacts on urban design, neighbourhood character, traffic, or other planning/transportation factors. In other words, a sound planning process identifies appropriate locations for density, which then makes an amenity contribution, rather than arbitrarily adding density to generate contributions.
- Developers must believe that the increased project size is marketable, physically feasible, and financially attractive. Extra density only has value to a developer if there is a market for the extra space, if the space is profitable, if the space (and the associated parking) fits on the site, and no disproportionate costs arise from building the extra space. Generally, the system works best if the allowable extra density can be achieved without changing the form of housing (e.g. townhouse projects are more dense but are still townhouse projects; low-rise apartments become more dense but they are still low-rise projects; and high-rise projects simply add floors).
- The price paid to the municipality for the bonus density (whether in the form of an actual amenity or cash-in-lieu) should be more or less equal to the value of the density. Developers will not pay more for the density than it is worth (i.e. they will not accept reduced profitability on the extra space).



- The City and the community should perceive that the amenity being obtained is sufficient to make it worth absorbing the extra density into the neighbourhood.
- The City must know what objectives it is trying to achieve via the amenity contribution. The City should know whether it prefers on-site amenities or cash-in-lieu and, if cash, it should have a clear sense of what amenities it wants to create with the revenue.
- There should not (in our view) be any down-zoning to create density bonus opportunity. To be fair and to be acceptable to the development industry, the density bonus system should retain existing allowable (or achievable) densities under existing density and look for opportunities for new density that can be incorporated in development projects.
- It is essential that development properties remain priced in the market based on their existing allowable density. The market must understand that the opportunity for new density, via a density bonus, can only be achieved by making the appropriate amenity contribution.

The Province of BC has produced guidelines that municipalities should follow when they are designing a cash-in-lieu approach to density bonusing:

- The cash-in-lieu should be collected for a clear purpose, which should be amenities that benefit the area in which the additional density is being developed.
- Density bonusing should not be used to fund infrastructure that is intended to be funded by other means such as DCCs.

Advantages and Disadvantages

There are several advantages to the use of a density bonus approach:

- The system is predictable from the perspective of land owners, developers, and the community. Maximum achievable densities are spelled out in the zoning bylaw, as are the conditions for obtaining the additional density.
- The system is relatively easy to administer, as it is well-defined in the zoning bylaw.
- The system is consistent (at least in terms of approach) across projects in the same zoning district.
- The system is voluntary; developers can decide whether or not they want to obtain the additional zoning and (provided there has been no down-zoning) the "worst case" is simply development in accordance with the base density (i.e. the same development that could have occurred prior to the introduction of the density bonus provision).

The only real disadvantage of amenity density bonusing is that it is not as flexible as site-by-site negotiations at rezoning, but then it is simpler to implement.

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4.0 Voluntary Amenity Contributions at Rezoning

Obtaining voluntary amenity contributions at rezoning hinges on the premise that rezoning creates a lift in land value but also adds density that can impose capital costs on the community.

Councils do not have to approve rezonings that are not in the community interest, so a project's ability to provide public benefits may affect whether Council regards a rezoning as being in the community interest.

Developers provide voluntary contributions if they perceive that such contributions are necessary to obtain rezoning approval, so it is obviously important for the municipality to signal the circumstances under which it anticipates amenity contributions. Some developers object to this practice on the grounds that they are entitled to any lift in land value that results from rezoning. However the counter-argument to this is that it is not reasonable for the municipality to absorb the full cost of growth while conferring a land value lift via upzoning. There is a way to structure rezonings such that the community obtains amenities, the developer achieves a profitable development project, and land sellers obtain full market value for their land based on current zoning.

Usually voluntary amenity contributions are negotiated on a site-by-site basis. Municipalities in BC tend to use one of these approaches:

- They define an expectation of the amenities that are needed to make the project acceptable. This "wish-list" may be less than, equal to, or more than the developer can afford; the municipality does not analyze the financial performance: it simply says "for this project to be acceptable to the community it should contribute the following amenities...".
- They expect that the value of the amenity contribution will be approximately equal to the lift in land value that will result from the rezoning. In this case, the land lift is calculated (which usually involves negotiation) and the package of amenities is designed to match.

This approach is extremely flexible, because the amenity package can include on-site open space, affordable housing, day care, heritage building restoration (if applicable), and cash, or some combination of these.

The drawback to this approach is that it requires detailed analysis and negotiation, so it requires an investment of staff (or consultant) time and possibly a lengthy process. This is probably not the most suitable approach for small projects, but it is a good approach for large or complex sites that are not amenable to the formulaic approach used in a density bonus system.

This approach can involve controversy. Developers and land owners often believe that they are entitled to earn the land value lift that results from rezoning. Where this approach is commonly used, though, the market adjusts.

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Table 2 shows the financial implications of different scenarios regarding the impact of zoning changes on land value, using an example based on current market conditions in Kelowna.

Table 2: Potential For Voluntary Amenity Contribution From Rezoning

Assumptions	12 ECO og ft (1 og	rc)				
Site size	43,560 sq. π. (1 acre)					
Existing zoning	RM-3 (allows town rise apartment at F	M-3 (allows townhouse at FAR 0.7) and OCP designation is RM-5 (allows low- se apartment at FAR 1.3)				
Sales price for market units	\$350 per sq. ft. for	apartments, \$300 for townhouses	3			
Construction cost for low-rise wood frame	\$195 per sq. ft. all	in for apartments, \$166 per sq. ft.	for townhouses			
Net to gross area	85% for apartment	s, 100% for townhouses				
Marketing	5% of revenue					
Developer profit target	15% of revenue					
Land cost (purchase price plus carry):	RM-5 = \$55 per so sq. ft. of site or \$75	q. ft. of site or \$43 per sq. ft. of bi 5 per sq. foot of buildable area.	uildable area; RM-3 = \$52 per			
No density bonus included						
Analysis						
	Scenario 1:	Scenario 2:	Scenario 3:			
	Townhouse	Apartment Development on	Apartment Development on			
	Development on	Site Rezoned from RM-3 to	Site Rezoned from RM-3 to			
	RM-3 Site	RM-5 if land trades based on	RM-5 if land trades based on			
		existing zoning and City	OCP value (i.e. no land lift			
		negotiates amenity contribution	as developer has already			
		based on land lift	paid for OCP density)			
Revenue	\$9,147.600	\$16,846.830	\$16,846.830			
Construction costs	\$5,061,672	\$11,042,460	\$11,042,460			
Marketing	\$457,380	\$842,341	\$842,341			
Land purchase	\$2,256,408	\$2,256,408	\$2,435,005			
Amenity contribution	0	\$178,597	0			
(maximum)						
Developer's profit	\$1,372,140	\$2,527,024	\$2,527,024			
	(15% of revenue)	(15% of revenue)	(15% of revenue)			

In Table 2, a 1 acre site is assumed to be zoned for townhouse (RM-3, which allows 0.7 FAR) but designated in the OCP for low-rise apartment (RM-5, which allows 1.3 FAR). In Scenario 1, the developer buys the land based on its RM-3 value and develops townhouses. The developer can afford to pay \$2,256,408 for the land and can earn a profit margin of 15% of gross revenue.

In Scenario 2, the developer buys the site based on its RM-3 value and rezones the site to RM-5 (the OCP designation). In this scenario, the developer can afford to pay a voluntary amenity contribution based on the gain in land value.

In Scenario 3, the developer buys the site but pays a price based on the anticipated value of the land after rezoning to RM-5. There is no financial room for an amenity contribution because the developer has already paid for the land lift by paying an RM-5 price for an RM-3 site.

Note that Scenarios 2 and 3 yield an identical developer profit. The developer does not lose money by paying RM-5 value for RM-3 land. All that happens is that the developer pays more for the land, but then expects to get rezoning without making an amenity contribution.

Scenario 2 is typical of how the market works in municipalities in which rezoning usually involves making a voluntary amenity contribution. Scenario 3 is typical of how the market works in municipalities with a history of granting rezoning without obtaining an amenity contribution. If the land market has become accustomed to paying for land based on its OCP designation, rather than existing zoning, there is no lift in land value at rezoning, because developers have already paid the lift to the land seller. In such a market situation, the only room for voluntary amenity contributions may be if municipalities are willing to contemplate densities higher than those anticipated in the OCP.



5.0 Practices in Other Communities

Several communities in British Columbia have implemented amenity contribution systems and many in Western Canada already seek voluntary amenity contributions at rezoning.

- 1. The City of Surrey uses density bonusing to allow additional density in new residential development areas. The zoning in these areas allows developers to build low density residential development with no amenity contribution, or build higher density versions of the same housing forms in exchange for cash contributions toward parkland development and neighbourhood houses, library books, police protection, fire protection and community buildings. The amount of extra density permitted, and the expected cash contributions are set out in the zoning bylaw so sites can develop to the higher bonus density without rezoning. The value of the amenity contributions received is adjusted each year for inflation.
- 2. The City of Burnaby allows bonus density in exchange for community amenities in the multifamily zones used in Burnaby's four town centres. These zones specify a base density that could be built with no amenity contribution, and additional density that can be built if an amenity is offered. Developers interesting in building the bonus density are required to rezone into a comprehensive development (CD) zone designed specifically for that site. The zone sets out the same base and bonus densities. The City of Burnaby calculates the value of the additional floorspace the developer will be able to build, and asks for amenity contributions of equal value. Burnaby's zoning bylaw includes a list of nine amenity categories (e.g. affordable housing, childcare, park improvements, environmental enhancements) and staff suggests to the developer which type of amenity would be most appropriate for each project. In some cases, the City requests a cash amenity contribution that it used to fund other community amenities. Burnaby's system is still predictable because it sets out the base and bonus densities permitted and the formula to be used to calculate the value of the amenity expected in return. Burnaby's model is more labour-intensive than the Surrey approach because it requires case-by-case assessment of the value of the bonus density, and staff input to determine the type of amenity contribution requested from each project.
- 3. The City of Vancouver was the first community in Greater Vancouver to codify an approach to negotiating voluntary amenity contributions from rezonings. Vancouver's system currently expects \$3 per square foot from smaller, simpler rezoning applications outside of the Downtown but this number is likely to change. The City negotiates for cash or in-kind community amenity contributions (CACs) from all other rezoning applications and the value of the CACs received is based on the lift in land value resulting from the rezoning.

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- 4. The City of New Westminster currently negotiates amenity contributions from all rezonings on a site-by-site basis, linking the value of the contribution to the lift in land value.⁵ The City is developing a new amenity density bonus zoning system that will be applicable to small development projects and will be completely formulaic. Developers will pay a prescribed price for each additional square foot of floorspace up to a defined maximum. Once this density bonus zoning system is in place contributions negotiated on a case-by-case basis will only be used on larger, more complex rezoning applications.
- 5. The City of Calgary has begun using density bonusing to achieve higher densities in selected urban nodes while also obtaining amenities. Calgary's system allows developers to earn additional density in several possible ways including providing affordable housing, open space, or cash contributions to a community enhancement fund. When a developer chooses the cash contribution option, density is valued at 100% of the land value of the additional density based on a site-specific appraisal.

⁵ As an example, the City received \$13,000 for each bonus apartment unit from a development proposal that required rezoning from low-rise to high-rise development. The City receives much lower per unit contributions from applications that involve changes in building form (e.g. single family to townhouse, single family to high-rise).

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6.0 Existing Situation in Kelowna

We have conducted financial analysis and obtained input from the Kelowna 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.

6.1 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. Rezonings in Kelowna that are consistent with the designations and policy intent of the OCP have tended for many years 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 that would be created by rezoning.

There appear to be two other factors at work in Kelowna 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 to amenity contribution expectations by not selling lend, the pace of development will slow and there will consequently 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 already designated in the OCP. The market has in effect already captured the value implied by OCP designations, so if the City tries to

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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, using a hypothetical 1 acre site that is currently zoned RM-3 to allow townhouses at FAR 0.7 and 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 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 in this case 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 to buy the site 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, assuming 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, 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 no opportunity to achieve an amenity contribution.

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In these examples, the land market is paying for land based on OCP designations, not existing zoning, and consequently there is no 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 <u>also</u> 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 of Kelowna 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 overall 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), we examine the existing affordable housing density bonus system.

6.2 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 the other 50% of the bonus density can be used for additional market units within the project.
- The affordable units 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 was 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 developer's initial 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 system 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.

Using the figures from the detailed pro formas in Exhibit 1, we have calculated and summarized the potential benefits and costs, from the developer's perspective, associated with the existing RM-5 affordable housing bonus. The figures are shown in Table 3.

Table 3: Density Bonus Calculations Using RM-5 Zone and Existing Density Bonus System as CaseStudy

Assumptions Site size	43,560 sq. ft. (1 acre)
Density	FAR 1.3 base plus FAR 0.1 bonus (of which 50% is used for market housing and 50% is affordable housing)
Sales price for market units	\$350 per sq. ft.
Construction cost for low-rise wood frame	\$195 per sq. ft. all in
Net to gross area	85%
Marketing	5% of revenue
Developer profit target	15% of revenue
Land value for RM-5 land	\$55 per sq. ft. of site or \$43 per sq. ft. of buildable area

Analysis

	Scenario 1: Base density	Scenario 2: Development Using
		Existing Density Bonus for
		Affordable Housing (1.3 +0.05 +
		0.05 = 1.4)
Total project size	56,628 (say 48 units)	60,984 (say 50 market units
		plus 3 affordable units)
Revenue from sale of base density market units	\$16,846,830	\$16,846,830
Revenue from sale of bonus market units	0	\$647,955
Revenue from sale of affordable units (at cost)	0	\$447,000 (3 units @ \$149,000)
Total revenue	\$16,846,830	\$17,919,495
Total project construction costs	\$11,042,460	\$11,891,880
Extra soft costs to incorporate affordable units (legal, design, management)	0	\$50,000
Cash contribution to City	0	0
Marketing cost (market units only)	\$842,340	\$874,724
Land purchase price	\$2,435,004	\$2,435,004
Developer's profit	\$2,527,026	\$2,667,887
	(15% of revenue)	(15% of revenue)

Scenario 1 shows how the project performs if the developer only uses the base density. The developer achieves a profit of 15% of revenue, so the project is viable.

Scenario 2 shows how the project changes if the developer uses the bonus density. The developer builds an additional 2 market units and 3 (small) affordable units. The affordable housing floorspace is fixed (43,560 sq. ft. site x 0.05 FAR = 2,178 sq. ft.) and this space will cost more or less the same (per sq. ft.) as the rest of the project. At the estimated cost of \$195 per sq. ft., the affordable space costs about \$425,000. This maximum sales prices (in 2007) for this space is \$149,000 per unit, so to avoid losing money the developer uses the space to make 3 units (of about 726 sq. ft. each), which sell for \$447,000 in total.

The revenues and costs for the market product are larger (because there are more units).

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The developer incurs some additional costs to include the 3 affordable units, which are a different design. We include a cost of \$50,000 to cover extra design costs, legal costs to enter into the necessary housing agreement with the City, and management/administration costs to deal with the City, find purchasers, and complete this component of the project. Now we can look at the benefits and costs form the perspective of the developer:

- In the bonus scenario, the numerical value of the profit goes up by about \$140,000. Profit is still 15% of revenue, so the project is viable, but the absolute amount of the additional (pre-tax) profit is only \$140,000.
- The developer takes the risk that the presence of the affordable units does not detract in any way from the sales performance of the market units (prices or rate of sales). We heard from developers who had used the affordable housing bonus and had found that some prospective market unit purchasers regarded the presence of the affordable units as a drawback.
- The developer absorbs the time and effort to deal with the inclusion of these units. While we have shown a cost for legal, design, and management expense, there is also the intangible element of one more issue to worry about.

In our view, the potential financial gains are too small relative to the costs, risks, and hassle involved in using the City's bonus system. Simply put, the maximum available bonus is too small to be of interest to most developers. We are not surprised that most eligible projects do not take advantage of the existing bonus system. We heard feedback from developers confirming that they do not see enough opportunity to offset the costs and risks of including a few affordable units.

As well, the existing system creates an ongoing administrative burden for the City, which must monitor all sales of affordable units to ensure they are complying with the City's maximum sales price.

7.0 Summary 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 developers 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 surprising that most projects do not try to use the available bonus density under the City's existing affordable housing policy.



8.0 General Approaches to Improving Kelowna's Affordable Housing Bonus and Amenity Contributions Policies

There are four ways in which the City could improve its approach and achieve more contributions for amenities or affordable housing.

1. The City could allow developers to make a cash-in-lieu contribution instead of actually building a few affordable units.

In this system, the developer would pay a percentage 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 use the money to build affordable units or to provide grants to non-profit organizations involved in creating affordable units.

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 (which are very small increments in density for urban multifamily residential projects), the City could modify selected multifamily 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	that	could	be	considered	in
exist	ting zo	ning dis	stricts.									

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 amenities or affordable housing:

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- 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 x 0.4 x \$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 x 0.6 x \$41).
- 3. For rezonings not contemplated in the OCP, the City could seek to achieve 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 obtain combinations of land, facilities, 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.

We discussed these general approaches with representatives of the Kelowna development community.

Developers generally support the idea of a cash-in-lieu option for affordable housing. Developers like the flexibility of being able to decide to include the affordable units (under the current system) or to make a cash-in-lieu contribution, depending on which is a better fit for a given project. Implementing a cash-in-lieu option requires the City to make three important decisions:

- How should the market value of additional density be determined? The fairest and most accurate method is to obtain appraisal input for each project rather than adopting a fixed number for all projects. Developers are supportive of the idea of determining the market value of additional density on a project-by-project basis, taking into account the location and housing form of the project.
- What portion of the market value should developers pay? Developers suggest that the City should only take a portion (50% to 75% has been proposed) of the market value; they argue that some of the value of the additional density should be retained by the developer. We argue that the developer will earn the developer's profit on the additional space and does not need an extra incentive in the form of a share of the land value from the additional density. We are also concerned that if the City charges less than full market value for density, the part left on the table simply becomes capitalized into the price of development sites, in the same way that the Kelowna market has priced in the rezoning potential based on OCP designations. It is true that there can be some minor transactional costs to obtaining and incorporating the additional density, such as design studies to confirm if the additional space can be accommodated, although it could be argued that this is no different than the conceptual planning work a developer does at the start of any project. We recommend pricing bonus density at 100% of market value in the cash-in-lieu approach, for sites that do not require rezoning and are simply using the prescribed density bonus in the bylaw. There is no rezoning risk, it is completely optional for the developer to use the density bonus or to opt for cash-in-lieu, and there is no guarantee that any "discount" will actually be retained by developers.
- When would the payment for bonus density be made? Developers argue that when a project includes actual affordable units, the developer "pays" gradually, as the cost of building the affordable units is incurred during construction. It follows, they say, that a cash-in-lieu payment could be made sometime during the construction process rather than up front. On the other hand, obtaining bonus density is in principle the same as buying land. Developers typically pay for their land purchase up front. One problem with deferred payment is that the City would need some means to secure the obligation. Developers would probably not want a mortgage registered on title, but the City would need something to ensure it can collect. We suggest that the City require payment upon building permit issuance (which provides some deferral, as developers typically pay for land before building permit issuance), with an option

to defer until substantial completion if the developer provides acceptable security such as an irrevocable letter of credit.

Developers note that the ability of a site to accommodate additional density depends on many factors including site size and dimensions, parking requirements, and soil conditions (which can limit the number of levels of underground parking that can be provided at acceptable cost). Developers recommend that the City review its parking requirements, with the intent of ensuring that bonus density can be achieved without encountering excessive construction cost for structured parking. We agree with this suggestion.

Developers definitely support the zoning certainty that comes with density bonusing. They like the fact that the additional density is completely predictable and does not involve rezoning risk. They suggest (and we agree) that building heights, setbacks, and other zoning parameters be adjusted to accommodate bonus density without the need for variance permits or rezoning.



9.0 Conclusions and Recommendations

In the Introduction to this report, we noted that the purpose of the project is to answer four questions.

What mechanisms can the City use to obtain amenity, infrastructure, or affordable housing contributions from new urban development projects?

In addition to continuing to use DCCs for basic infrastructure, the City should adopt a more comprehensive approach to using zoning-based tools to achieve amenities:

- The City should expand and improve its use of density bonusing. We provide specific recommendations in our response to the third question below.
- The City should seek voluntary amenity contributions for rezonings that involve changes in land use and/or changes in density that are beyond the scope of the current OCP. While many communities in BC seek contributions for changes in zoning, in Kelowna rezonings based on OCP designations have been granted without significant contributions so OCP designations have become de facto zoning. We do not recommend that the City try to claw back this land lift by seeking contributions from rezonings consistent with the existing OCP. This will cause disruption in the land market and is almost certain to reduce the availability of development sites, which in turn will put upward pressure on land values and housing prices. Therefore, we recommend that the City seek contributions from rezonings beyond the scope of the OCP.

What kinds of amenities should the City be trying to obtain and where does affordable housing fit in the priority list?

This is a political question, not a technical one. The zoning-based tools that enable municipalities to obtain amenities (or cash-in-lieu) allow considerable flexibility in terms of the kinds of amenities to be achieved. These tools can be used to obtain community facilities (e.g. library, recreation facilities), day care, public art, retention of heritage buildings, improvements to open space, park dedications beyond what can be obtained at subdivision, affordable housing. Each community must decide on its amenity priorities. Most communities use amenity contributions to address a variety of community needs, rather than focusing on only one issue.

There are some important guidelines that should be followed:

• Amenity contributions are obtained from projects that are developing additional density. The underlying rationale for seeking amenity contributions is to help the community deal with the fiscal and environmental impacts of growth, so it follows that amenity contributions should be

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used to provide amenities that are necessitated by community growth or that help the existing community cope with the impacts of growth. There should be an obvious link between the amount and type of growth, the location of the growth, the resulting needs for community amenities, and the priorities for addressing these needs.

• Amenity contributions should be used to achieve permanent amenities that cannot be funded by other means. The contributions should not be used to cover operating costs, temporary facilities, or facilities that ought to funded out of DCCs.

How can the City improve its current approach to obtaining amenity contributions?

We have a series of suggestions, some of which can be implemented immediately and some of which will take time.

- The City should immediately adopt a policy allowing a cash-in-lieu option under the existing density bonus for affordable housing. The City can leave the current approach in place (i.e. 50% of the bonus is market housing and 50% is affordable housing), but the City should provide a cash-in-lieu alternative for developers, along these lines:
 - The value of the bonus density should be determined on a project-by-project basis.
 - The cash-in-lieu contribution should be equal to 100% of the market value of the additional density.
 - The payment should be made at time of building permit issuance or (at the developer's option) deferred to substantial completion if the developer provides acceptable security such as an irrevocable letter of credit.

The City will need to develop a policy for what to do with the funds collected. The City could use the money to fund the construction of affordable housing (e.g. rental housing), although this means the City must own and operate residential projects. Alternatively, the City could use the money to provide grants (using an RFP process) to non-profit organizations or government agencies that are involved in affordable housing projects.

2. The City should amend some of the multifamily zoning districts to increase the amount of the density bonus. At present, the bonus districts allow increase in FAR of only 0.05 or 0.1. These are very small increases, on top of base densities that are already low. In our view, the City should consider increasing the allowable density in its townhouse, low-rise apartment, and high-rise zones up to the limits that are achievable in attractive, livable projects with urban character. These density increases should all be structured as density bonuses achievable in exchange for making the required amenity contribution. Developers (and land sellers) must understand that these increases are only achievable by making the amenity contribution, so the added value should not be capitalized into land purchase prices.

Increasing the allowable densities in selected zones does not necessarily have to wait for a full review of the OCP. The City could consider these rezonings on a neighbourhood basis, looking for locations in which marginal increases in density are appropriate in community planning and urban design terms and can readily be achieved. When changing the allowable density, the City should assume that the structure type must stay the same (i.e. low-rise apartment sites are still low-rise apartment sites, but at a slightly higher density) and should make all of the consequential changes in the bylaw that are necessary to allow the increased zoning to be achieved. This may mean revising maximum height (e.g. increasing low-rise apartment sites from 3 storeys to 4), reducing setback requirements, and reducing parking requirements.

- 3. The City should seek voluntary amenity contributions for all rezonings that involve a significant change in land use or density not already contemplated in the OCP. The City should adopt an approach that involves estimating the net lift in land value (after allowing for all land development costs) associated with the rezoning and then setting a general target that the amenity contribution (including on-site amenities, off-site amenities, and any cash-in-lieu portion) has a total value equal to about 75% of the lift. This 75% level is somewhat arbitrary, but it acknowledges that a portion of the land lift should be available to provide incentive to the land seller and incentive to the developer to undertake the rezoning. The 75% target is consistent with the expectation of a variety of urban communities in BC.
- 4. The City is planning to review and update its OCP. As part of this process, the City should look for appropriate locations for additional density (beyond that already contemplated in the existing OCP), based on location, neighbourhood character, transit service, and other factors. Where there are sound opportunities for additional density (i.e. that make sense in terms of community planning, infrastructure, urban design, sustainability, and market trends), the new OCP should make it very clear that the City's policy will be to rezone to match new OCP designations if there is an appropriate voluntary amenity contribution. In this way, the City can avoid continuation of the current situation in which OCP policy has become (in the land market) the basis for land price. In effect, the City should acknowledge that the land market has already captured the value associated with existing OCP policies, but the City should ensure that the new plan makes it clear that new density will be viewed as an opportunity to achieve public benefits.

What tools other than amenity contributions can the City use to address the issue of affordable housing?

Developers rightly pointed out that Kelowna's affordable housing problems will not be completely addressed via amenity density bonusing. The amount of cash that will be generated or the number of units that will be created is not likely to be enough and is not likely to address the needs of all people. For example, the existing affordable housing density bonus system encourages the creation of small units (by setting a maximum selling price) and puts these into

the market at about 80% of market value. Even at this discounted price, the units are beyond the reach of low income people and the small size makes them unsuitable for families.

Amenity contributions are one tool that should be part of an affordable housing strategy. For a comprehensive review of all of the elements the City could include in a comprehensive affordable housing strategy, the City could review these three publications:

- Richmond Affordable Housing Strategy, City of Richmond BC, May 2007
- Regional Affordable Housing Strategy, Greater Vancouver Regional District July 2007
- Review of Best Practices in Affordable Housing, SmartGrowthBC.

Not all of the ideas will be appropriate to Kelowna, but some of the elements that involve direct municipal action include:

- Making City-owned land available via long term lease (to reduce the cost) to non-profit or government groups for affordable housing projects.
- Partnering with senior governments and non-profit organizations in the construction of units, possibly by providing capital that has been generated from amenity contributions.
- For very large rezonings, requiring the inclusion of rental units or the dedication of a site for affordable housing.
- Encouraging the retention of existing rental housing stock.



Exhibits



Exhibit 1

Land Residual Estimate for Woodframe Ap Assumed Density of	partment Project in 1.30 F	the RM-5 District AR
Major Assumptions		
Revenue and Value Average Sales Price Per Sq. Ft.	\$350.00 p	er sq.ft. of net saleable residential space
Site and Building Size		
Site Size	43,560 s	q.ft. or 1.0 acre
Assumed Density	1.30 F	AR
Total Space	56,628 s	q.ft.
Net Saleable Space	48,134 s	q.ft. or 85.0% of gross area
Average Net Unit Size	1,000 s	q.ft.
Number of Units	48.0 u	inits
Number of Parking Stalls	1.50 p	er unit or 72 in total
Land Costs	¢0.	
Site Acquisition	ŞU 2.0%	
Property Transfer Tax/Closing Cost	2.0%	
Holding Costs on Land	7.0% p	er year
Construction Costs	ŚO	
Hard Costs - Building	ېن 115 r	er gross so ft of huilding
Hard Costs - Building	¢30.000 v 2112 h	er gloss sq.n. or building
	\$153.14 r	er gross so ft assuming underground narking
Premium on Hard Costs due to Ground Conditions	\$1.00 r	er gross sq.rt. assuming underground parking
Soft Costs	10.0% k	ard costs for design engineering management insurance/warranties nermits legal micc
Contingency on Hard and Soft Costs	5%	and costs for design, engineering, management, insurance, warrances, permits, regal, mise.
Regional District Levies	\$0.00 r	er apartment unit
City of Kelowna DCCs	\$10.002.00 r	er unit (assumes City Centre rate)
Amenity Contribution	\$0.00	
Interim Financing on construction costs	7.0% c	n 50% of hard and soft costs (assuming a 15 month construction period)
Other Costs and Allowances		
Marketing and Commissions	5.0% c	f gross revenue
Developer's Profit	15.0% c	f gross revenue
Property Tax Rate	0.650% c	f assessed value
Assessed Value Assumed to be	\$2,200,000 ii \$8,423,415 ii	יז Year 1 of contruction (and approvals) יז Year 2 of construction (50% of finished value)
Amelia		
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	\$U	
Amonity Contribution	\$48U,U96	
Amenity Contribution	ېں د 25 129	
Interim Financing	¢۷۲۵ ۵۴۵ ۵۹۲۵ ۵۴۵	
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	

\$39.04

Residual Value per sq.ft. buildable

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
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
Land Costs	
Site Acquisition Property Transfer Tax/Closing Cost	\$0 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)
Premium on Hard Costs and servicing costs	\$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
Amenity Contribution	\$10,527.00 per unit (assumes city centre rate)
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	\$4,573,800 in Year 2 of construction (50% of finished value)
Analysis	
Land Costs	
Acquisition	\$0
Transfer Tax and Closing Cost	\$0 \$2
Holding Costs	\$0 \$0
Revenue	\$0.147.600
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 6 400 550
Soft Costs Contingency on Hard and Soft Costs	\$400,658 \$200,329
Regional District Levies	\$0
City of Kelowna DCCs	\$210,540
Amenity Contribution	\$0 635.057
Property Taxes During Approvals/Development	۶۷,۵۶۶ \$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
NESIGUAL LATIO VAIGE	\$1,310,310
Residual Value per sq.ft. of site	\$45.37
Residual Value per sq.ft. buildable	\$64.8Z

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.tt.
Number of Units	37.0	units
Number of Parking Stalls	1.50	Jer unit or 56 in total
Land Costs		
Site Acquisition	\$0	
Property Transfer Tax/Closing Cost	2.0%	
Holding Costs on Land	7.0%	ber year
Construction Costs	ćo	
Rezoning Costs	ŞU ¢115 .	por gross so ft of huilding
Hard Costs - Building Hard Costs - Parking	\$115 000 022	per stall
Overall Hard Costs and servicing costs	\$153.22	ner gross so ft, assuming underground parking
Premium on Hard Costs due to Ground Conditions	\$0.00	per gross sq.ft.
Soft Costs	10.0%	nard 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 i \$6 479 550 i	n Year 1 of contruction (and approvals) n Year 2 of construction (50% of finished value)
	<i>+-,</i>	
Analysis		
Land Costs		
Acquisition	\$0	
Transfer Tax and Closing Cost	\$0	
Holding Costs	\$0 ¢0	
Total Land Costs	ŞU	
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	
SOTE COSES	\$667,440	
Contingency on Hard and Soft Costs	\$333,720	
City of Kelowna DCCs	50 470 0753	
Amenity Contribution	\$0,074	
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 so.ft. of site	\$39.07	
	400.01	

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	e residential space
Site and Building 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 buildir	ng
Hard Costs - Parking	\$30,000 per stall	
Overall Hard Costs and servicing costs	\$239.26 per gross sq.ft. assumin	g underground parking
Premium on Hard Costs due to Ground Conditions	\$0.00 per gross sq.ft.	
Soft Costs	10.0% hard costs for design, e	ngineering, management, insurance/warranties, permits, legal, misc.
Contingency on Hard and SOTE COSES	5% \$0.00 per apartment weit	
City of Kelowna DCCs	\$0.00 per apartment unit \$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	t 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 contruction	(and approvals)
	\$14,211,450 in Year 2 of construction	n (50% of finished value)
Analysis		
Land Costs		
Acquisition	\$0	
Transfer Tax and Closing Cost	\$0 10	
Holding Costs	\$U \$0	
Total Land Costs	30	
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	۶0 \$1 562 200	
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	

43,560 sq.ft. or

1.70 FAR

74,052 sq.ft. 62,944 sq.ft. or

1,000 sq.ft.

63.0 units

\$2,210,000

2.0%

\$0

5%

\$667,000

\$22,030,470 \$1,101,524 \$20,928,947

\$30,000 per stall

\$0.00 per gross sq.ft.

\$0.00 per apartment unit \$10,002.00 per unit (assumes City Centre rate)

5.0% of gross revenue

\$2,200,000 in Year 1 of contruction (and approvals) \$11,015,235 in Year 2 of construction (50% of finished value)

0.650% of assessed value

1.50 per unit or

7.0% per year (for 21 months)

\$115 per gross sq.ft. of building

\$153.28 per gross sq.ft. assuming underground parking

\$350.00 per sq.ft. of net saleable residential space

1.0 acre

85.0% of gross area

95 in total

10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.

7.0% on 50% of hard and soft costs (assuming a 15 month construction period)

Exhibit 5

Lowrise Project in a Revised RM-5 District with Higher Density 1.70 **FAR**

Assumed Maximum Density

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.

Site and Building Size

Site Size Assumed Density Total Space Net Saleable Space Average Net Unit Size Number of Units Number of Parking Stalls

Land Costs

Site Acquisition Property Transfer Tax/Closing Cost Holding Costs on Land

Construction Costs

Rezoning Costs
Hard Costs - Building
Hard Costs - Parking
Overall Hard Costs and servicing costs
Premium on Hard Costs due to Ground Conditions
Soft Costs
Contingency on Hard and Soft Costs
Regional District Levies
City of Kelowna DCCs
Amenity Contribution
Interim Financing on construction costs

Other Costs and Allowances

Marketing and Commissions Property Tax Rate Assessed Value Assumed to be

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	
Less Marketing and Commissions	
Net Sales Revenue	

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

2.50 FAR

43,560 sq.ft. or

94,743 sq.ft. or

1,000 sq.ft.

95.0 units

\$3,440,000

2.0%

\$0

5%

\$1,070,000.00

\$30,000 per stall

\$0.00 per gross sq.ft.

\$0.00 per apartment unit \$10,002.00 per unit (assumes City Centre rate)

> 5.0% of gross revenue 15.0% of gross revenue

0.650% of assessed value

\$3,400,000 in Year 1 of contruction (and approvals) \$23,685,750 in Year 2 of construction (50% of finished value)

1.50 per unit or

7.0% per year (for 24 months)

\$200 per gross sq.ft. of building

\$239.26 per gross sq.ft. assuming underground parking

2.50 FAR 108,900 sq.ft.

\$500.00 per sq.ft. of net saleable residential space

1.0 acre

87.0% of gross area

10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.

7.0% on 50% of hard and soft costs (assuming an 18 month construction period)

143 in total

Exhibit 6

Highrise Project (20 Storeys) in a Revised RM-6 District with Higher Density

Assumed Maximum Density

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.

Site and Building Size

Site Size Assumed Density Total Space Net Saleable Space Average Net Unit Size Number of Units Number of Parking Stalls

Land Costs

Site Acquisition Property Transfer Tax/Closing Cost Holding Costs on Land

Construction Costs

Rezoning Costs
Hard Costs - Building
Hard Costs - Parking
Overall Hard Costs and servicing costs
Premium on Hard Costs due to Ground Conditions
Soft Costs
Contingency on Hard and Soft Costs
Regional District Levies
City of Kelowna DCCs
Amenity Contribution
Interim Financing on construction costs

Other Costs and Allowances

Marketing and Commissions **Developer's Profit** Property Tax Rate Assessed Value Assumed to be

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

43,560 sq.ft. or

94,743 sq.ft. or

1,000 sq.ft.

95.0 units

\$2,210,000

2.0%

\$0

5%

\$2,300,000.00

\$2,210,000 \$44,200 \$315,588 \$2,569,788

\$30,000 per stall

\$0.00 per gross sq.ft.

\$0.00 per apartment unit \$10,002.00 per unit (assumes City Centre rate)

5.0% of gross revenue

15.0% of gross revenue 0.650% of assessed value

\$2,200,000 in Year 1 of contruction (and approvals) \$23,685,750 in Year 2 of construction (50% of finished value)

1.50 per unit or

7.0% per year (for 24 months)

\$200 per gross sq.ft. of building

\$239.26 per gross sq.ft. assuming underground parking

10.0% hard costs for design, engineering, management, insurance/warranties, permits, legal, misc.

7.0% on 50% of hard and soft costs (assuming an 18 month construction period)

2.50 FAR

108,900 sq.ft.

\$500.00 per sq.ft. of net saleable residential space

1.0 acre

87.0% of gross area

143 in total

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.

Site and Building Size

Site Size Assumed Density Total Space Net Saleable Space Average Net Unit Size Number of Units Number of Parking Stalls

Land Costs Site Acquisition

Property Transfer Tax/Closing Cost Holding Costs on Land

Construction Costs

Rezoning Costs
Hard Costs - Building
Hard Costs - Parking
Overall Hard Costs and servicing costs
Premium on Hard Costs due to Ground Condition
Soft Costs
Contingency on Hard and Soft Costs
Regional District Levies
City of Kelowna DCCs
Amenity Contribution
Interim Financing on construction costs

Other Costs and Allowances

Marketing and Commissions Developer's Profit Property Tax Rate Assessed Value Assumed to be

Analysis

2	
Land Costs	
Acquisition	
Transfer Tax and Closing Cost	
Holding Costs	
Total Land Costs	

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