
CITY OF KELOWNA

MEMORANDUM

Date: June 10, 2009
File No.: 5040-20
To: City Manager
From: Community Planning Manager
Subject: Purpose-Built Rental Housing

RECOMMENDATION:

THAT Council receive for information the report of the Community Planning Manager dated June 10, 2009;

AND THAT Council direct staff to bring forward a staff report with respect to Purpose-Built Rental Housing to the Regular afternoon meeting of June 22, 2009.

BACKGROUND:

Council received the staff report for initial consideration of OCP09-0001 and Z09-0007 for 245 Briarwood on behalf of Troika Development Inc. on May 25, 2009. The applications for this 67 unit purpose built rental apartment building were received one month before Council adopted a policy to determine appropriate means of contributing towards affordable housing when increases in density are proposed that require OCP amendments. It is one of very few applications received for purpose-built rental housing over the last decade or more.

Several meetings were held between the applicant and staff to determine the fairest way to consider this application in terms of its housing contributions and the fact that a density increase is proposed. The applicant presented financial pro forma information at the request of staff and this information was reviewed in detail and accepted as rationale as to why a contribution to affordable housing based on the recently approved Council policy was not workable in this rental housing situation. The fact that there is a smaller existing rental residential building on the property added to the complexity of the situation. Towards the end of these discussions, a compromise was accepted that involved securing eight rental units on the abutting property as affordable rentals under a housing agreement that would have notice filed against the neighbouring property, thereby not theoretically jeopardizing the financial viability of the proposal at 245 Briarwood, while recognizing the acute shortage and need for new purpose built rental housing in the City. Since the May 25th meeting, the developer has indicated that even the notice of the agreement registered against the neighbouring property would affect the economic ability to proceed with the new building at 245 Briarwood. Thoughts were reiterated by the applicant that the research provided to the City by Coriolis to address density bonusing requirements of City policy to the effect that this information was not transferable in a rental housing situation.

Staff decided it would be in keeping with due diligence to raise this issue with the Coriolis consultant, Jay Wollenburg as a follow-up to the work that was conducted for the City. Staff met with Mr.



Wollenburg on June 9th to have the discussion. Mr. Wollenburg has provided written confirmation of his position in the attached letter. The advice provided to the City was that the economics of building new purpose-built rental housing were such that the logic applied to strata-titled ownership buildings was not transferable in a rental situation. Further, the shortage of new purpose built rental buildings across the country, which is exacerbated by federal taxation environments and regulations ,is such that this type of development is sought as an amenity by several municipalities in a density bonusing situation. The issue then becomes how does the municipality secure this amenity for the long term.

In reviewing existing policy, staff was able to determine that if the City decides to accept the approach of encouraging new purpose-built rental housing as an amenity appropriate in consideration of increases in density, existing OCP policy can support it. Policy 8.1.31 of the OCP has long stated that the City would:

“Consider supporting an OCP amendment and rezoning application for residential densities greater than those provided for on the Generalized Future Land Use Map 19.1 where a portion of the proposed units are available for affordable, special needs or rental housing identified to be in short supply (guaranteed through a Housing Agreement)” (Subject to the criteria set out in the policy)

The only new City direction is the Council Policy arising from the Coriolis work to quantify and define the housing contribution already required by the OCP. OCP policy 8.1.31 does read that *rental housing identified to be in short supply* qualifies as a legitimate reason to support such an amendment. The issue of securing the housing through a housing agreement without jeopardizing the economics of the proposal can be addressed by having the housing agreement signed by the City and the applicant and record kept on file without registering notice of the agreement against the title of the property. The agreement itself would alert future staff and councils that stratification of the building would not be supportable in the context that the rental housing was obtained in return for a density increase.

Recommended courses of action, should Council accept this interpretation of 8.1.31 in the OCP, would include the following:

1. Confirm that the interpretation of housing to be contributed as a result of a density increase through amendment to the OCP, under 8.1.31 should include situations where a project includes a building comprised entirely of purpose built rental housing on the basis that it is in short supply.
2. That a housing agreement will be required to be signed by the owner and the City and kept on file to confirm that the building in question remains devoted to rental housing and to indicate that no applications to stratify the building will be accepted or approved by the City in the future on the basis that the rental housing was provided in return for an increase in density.
3. And that Council direct staff to report back with appropriate policy changes to define contributions of purpose-built rental housing in return for density increases.

INTERNAL CIRCULATION TO:

City Clerk / Legislative Services
Land Use Management

LEGAL/STATUTORY AUTHORITY:

Local Government Act S. 904 & 905

EXISTING POLICY:

Strategic Plan

- Goal #3 - To foster the social and physical well-being of residents and visitors.

- Objective #4 – Realize construction of housing forms and prices that meet the needs of Kelowna residents.
 - Actions 3.4.1 and 3.4.2 – partnerships for housing

Official Community Plan – Chapter 8

8.1.31 “Rezoning to Higher Densities. Consider supporting an OCP amendment and rezoning application for residential densities greater than those provided for on the Generalized Future Land Use Map 19.1 where a portion of the proposed units are available for affordable, special needs or rental housing identified to be in short supply (guaranteed through a Housing Agreement). To mitigate the neighbourhood impact of higher densities, it is important that:”

- supporting infrastructure and park land is sufficient to accommodate the proposed development (or the developer is prepared to upgrade the necessary infrastructure and park land); and
- the proposed densities do not exceed the densities provided for on Map 19.1 by more than one increment (e.g. medium density multiple units might be entertained where low-density has been provided for, and low-density multiple units might be entertained where single/two unit residential densities have been provided for); and
- the project be sensitively integrated into the surrounding neighbourhood, with no more than a one-storey height gain between the proposed development and the height permitted within land use designations assigned to adjacent parcels (Where the property being proposed for redevelopment is large, consideration may be given to providing greater heights at the centre of the property provided that the new building is sensitively integrated with the surrounding neighbourhood); and
- approval of the project not destabilize the surrounding neighbourhood or threaten viability of existing neighbourhood facilities (e.g. schools, commercial operations etc.). “

Considerations that were not applicable to this report:

FINANCIAL/BUDGETARY CONSIDERATIONS

PERSONNEL IMPLICATIONS

TECHNICAL REQUIREMENTS

COMMUNICATIONS CONSIDERATIONS

ALTERNATE RECOMMENDATION

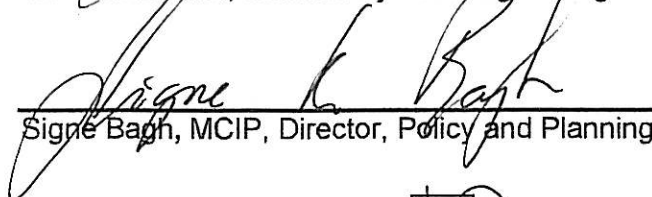
EXTERNAL AGENCY/PUBLIC COMMENTS:

LEGAL/STATUTORY PROCEDURAL REQUIREMENTS:

Submitted by:



Theresa Eichler, Community Planning Manager

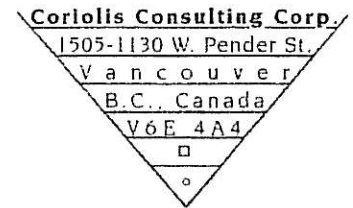


Signe Bagh, MCIP, Director, Policy and Planning

Approved for Inclusion:



Attachment: - Letter from Jay Wollenburg, of Coriolis Consulting



coriolis

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Website: www.coriolis.ca

VIA EMAIL

10 June 2009

Ms. Theresa Eichler
Community Planning Manager
City of Kelowna
1435 Water St., City Hall
Kelowna, B.C.
V1Y 5M3

Dear Ms. Eichler:

Re: Affordable Housing Policy Applied to New Rental Housing Projects

As a follow-up to the work I completed for the City of Kelowna on potential amenity contributions and affordable housing contributions from new development projects, you asked me to provide some suggestions for whether or how such contributions might apply to new rental housing developments.

I understand you are seeing some applications to obtain additional density (beyond the density contemplated in the existing OCP) in new rental housing projects. You are considering whether this additional density should be linked to an obligation for the developer to make an affordable housing contribution or cash-in-lieu.

The study I completed for the City suggested that the City should expect amenity contributions from projects receiving density increases because the extra density confers land value that should be shared by the City (which absorbs the impact of the additional development) and the developer. However, it is necessary to keep these points in mind:

- My analysis and recommendations are based on projects that will develop strata title residential units for sale. Strata title development is normally sufficiently profitable and normally supports enough land value that developers ought to be willing and able to make an affordable housing contribution in order to obtain additional density.
- Purpose-built rental housing in most cases is not as financially attractive to developers as strata title development for sale. In most cases, rental housing supports a lower land value, so the value of additional density will be much less in a rental project than a strata title project.

I have not produced a financial model for a new rental housing project in Kelowna, but I expect that such an analysis would show that new purpose-built rental does not support enough land value to allow a developer to make a significant financial or amenity contribution for more density.

I think it is also notable that many communities regard the development of purpose-built rental housing as being of itself an important element in an affordable housing strategy. The "contribution" associated with more density is the additional rental stock that this density allows.

I am aware of municipalities that are contemplating incentives for the development of new purpose-built rental including granting additional density, significantly reducing off-street parking requirements, lowering municipal fees and property taxes, and others. I would say the general climate in B.C. is to encourage and facilitate rental housing construction rather than to seek contributions from such projects.

I believe this situation is a result of these factors:

- There has been very little recent private sector purpose-built rental housing in BC, because it has not been financially attractive to developers.
- Notwithstanding the current economic downturn and weakening of the residential market, many communities perceive that there will continue to be a long term affordable housing problem in those communities that have high attractiveness for new residents and relatively limited land supply (due to terrain, natural features, ALR, and other factors).
- Rental housing (even if targeted at the upper part of the rental market) is viewed as a kind of affordable housing because it does not require a down payment and does not require qualification for a mortgage. Purpose-built rental is often built to a durable but less luxurious standard, also contributing to relative affordability. High-end rental units may not help moderate income people directly but can free up moderate units if people move up.

Based on these considerations, Kelowna could have different approaches to strata title versus rental projects:

- Strata title projects seeking additional density (above OCP) should make affordable housing contributions (or cash in lieu) or other amenity contributions, in accordance with City policy and based on the market land value of the additional density.
- Purpose-built rental projects seeking additional density should not be expected to make further affordable housing contributions provided the City has sufficient assurance that the units will remain rental. This approach could be changed if in the future, if the rental market is sufficiently financially strong to support amenity contributions but this will not happen unless construction costs come way down or rents go way up.

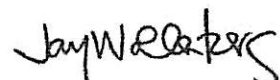
If new rental projects involve the demolition of existing rental units, the City might require the developer to assist tenants with relocation to comparable units as a condition of granting additional density.

In my view, it is entirely reasonable to have different policies for strata title and rental projects, because the development economics are so different.

I hope this is helpful. Please don't hesitate to call if you have any questions.

Yours truly,

CORIOLIS CONSULTING CORP.



Jay Wollenberg