

Memo

Date: October 6, 2022

Subject: Community Amenity Contributions & Inclusionary Housing Program: Phase 2 Discussion Paper Summary Memo
File: 2830-50 • Community Contributions

BACKGROUND

To ensure that the supply and quality of community amenities (including affordable housing) remain high as new development occurs, the District of Saanich commissioned the development of a formal District-wide approach to negotiating and receiving new amenities, cash-in-lieu contributions, and affordable inclusionary rental housing, formally called the Community Amenity Contributions & Inclusionary Housing Program (the “Program”).

The Program commenced in late 2021. Key deliverables to date include:

- Engagement and Outreach Strategy (Phase 1)
- Best Practices Summary Memo (Phase 1)
- Discussion Paper & Economic Analysis (Phase 2).

Two of the five Program phases have been completed, and work is currently underway as part of Phase 3: Consultation and Validation.

The Discussion Paper & Economic Analysis is a key deliverable of Phase 2 of the project, building off earlier findings from the initial program phase. It was the intention of staff and the consultant to attend a Council meeting and provide a summary overview to break down the complex analysis and preliminary findings. However, unforeseen agenda constraints meant the delivery of the Discussion Paper before the fall election was not possible. As a result, this Memo to Council was prepared to provide Council with a summary of the Discussion Paper and outline next steps.

The Discussion Paper provides a series of snapshot insights on the complexities of achieving public benefit amenities and affordable and supportive housing. The purpose of the Discussion Paper is:

1. To document key market, regulatory, and policy factors influencing possible approaches to the District’s Community Amenity Contributions and Inclusionary Housing policy.
2. To present a District-wide financial and economic analysis on the ability of development projects to contribute to community amenities.

The Discussion Paper, with emphasis on its financial and economic analysis, will provide foundational information to District Staff and Council on how to adjust the Interim CAC Policy to be a more transparent, efficient, balanced, and predictable process.

SUMMARY OF DISCUSSION PAPER FINDINGS

The Discussion Paper analysis and findings indicate that the factors impacting a formal CAC and Inclusionary Housing Program are highly complex and that economic environment is changing quickly. Key findings from the Discussion Paper are summarized below.

Key Market Housing Trends and Issues

- **Rising housing prices and a low availability of rental housing** has persisted in the District of Saanich and in the Capital Regional District in recent years.
- There is **unmet housing need for diverse housing options** in Saanich for both owners and renters.
- There is **uncertainty in the housing development industry due to rising inflation rates and interest rates** which impact construction costs and housing sale prices, and ultimately the viability of development projects.
- **Operating expenses are becoming more challenging for non-profit housing providers** to manage due to increasing property insurance costs.

Stakeholder Engagement Findings

- **Non-profit housing providers emphasized the need for rents to be tied to the market** and desire to be engaged early in the development approvals process by housing developers to discuss opportunities to own and/or operate potential inclusionary units.
- The **ability of development projects to proceed hinges on financial viability**. Real estate industry and developers indicated the desire to see defined policy outcomes, clear planning regulations, and corresponding incentives to support CACs and IH.
- Community associations highlighted the importance of **locating affordable housing units close to existing amenities and achieving needed amenities to provide local benefit**.

District Wide Financial and Economic Analysis: Key Findings

To estimate CAC amounts supportable from rezonings or pre-zoned density bonusing in Saanich, 35 case study sites were analyzed (using developer pro-formas) to determine the financial viability of redevelopment. The case study sites include a mix of locations within Centres, Corridors, and Villages as well a range of target densities and housing types. These case studies were focused on developments with residential use as a primary use as CACs are not typically applied to industrial, institutional, and commercial development projects in comparable communities to the District of Saanich.

A summary of key findings is presented below:

- **Many sites and project types in the various study areas are not rezoning and redevelopment candidates yet**, because:
 - The **sites are more valuable under their existing zoning** than as redevelopment sites under the uses/densities envisioned, and under current market conditions.

- Other **non-market factors beyond uses and densities are a net drain on the pro forma** (e.g., parking requirements, approvals processes and timelines).
- **Commercial Mixed-use projects struggle to be viable**, and with few exceptions, cannot make amenity contributions either through rezoning or pre-zoned density bonusing. Mixed-use viability should be re-assessed if the District elects to change its commercial minimum parking requirements.
- **Concrete apartment projects (typically used for buildings higher than 6 stories) struggle to be viable at prevailing cost and revenue conditions.** We would not expect to see concrete high-rise construction in Saanich for at least the next 5+ years.
- **6-storey wood-frame apartments, along with townhouses (traditional and stacked) are the most commonly viable and financially attractive** development typologies. Most 6-storey projects show an ability to make a considerable amenity contribution, either through re-zoning or pre-zoned density bonusing.
- For some types of **strata residential projects that are seeking bonus density, it is financially feasible to provide on-site affordable rental housing units at substantially below market rates**, or in addition to contributing toward other amenities.
- Through rezoning or within a framework of pre-zoned density bonusing, the **amount of affordable rental housing that can be provided depends on:**
 - The **amount of bonus density** provided
 - **Required rents for affordable units.** The lower the required rents, the less affordable housing can be provided as an 'in-kind' amenity contribution
 - **Permitted rental rate increases** over time
 - **Relationship between rents and operating costs** over time.
 - The **unit sizes and mix of affordable units.** Larger units generate lower per-square-foot rents; the larger the units, or the greater the proportion of larger vs. smaller units, the fewer units which can be provided as a contribution.
- **At 10% below median CMHC market rents, an inclusionary housing unit's value at completion is less than 60% of the cost to create** that unit (excluding any profit allowance)
 - At rental rates of 10% below median CMHC market rents, the average price that a nonprofit could afford to pay a developer to acquire and operate a completed unit is around \$230,000.
 - The capital costs to deliver that unit are around \$400,000, including land purchase, hard and soft development cost, and interest on construction financing.
 - Average non-market rents charged would need to increase by approximately 25%-35% for a non-profit to be able to purchase a unit at cost. This would still place these units substantially below actual market rental rates.
 - At current CMHC median rents, if developers were required to deliver non-market rental units at a 10-20% discount to actual market rents (vs. a discount to CMHC

market rents), the result would be a greater number of non-market units delivered but they would be delivered at higher rent levels.

- It is important to highlight that amongst the sites that are financially attractive for redevelopment under envisioned use and density conditions, the calculated supportable CACs/bonus density payments vary significantly from area to area.
 - There are a wide range of outcomes when applying target rate CACs and/or density bonus rates payable by different projects across the District, including:
 - land values supported by current use and / or zoning (from under \$4 million to over \$9 million per acre).
 - achievable unit prices and lease rates for new apartments, townhouses, and commercial space.
 - variable parcel sizes, ranging in this analysis from 10,000 square feet to over 2 acres.

PRELIMINARY RECOMMENDATIONS AND NEXT STEPS

From the analysis above, the preliminary recommendation from this Discussion Paper is to adopt a hybrid approach to assessing Community Amenity Contributions

Preliminary Recommendations:

The financial analysis includes data from dynamic market conditions with varying financial viabilities based on location, site conditions, etc. As such, the analysis developed multiple target fixed rate CACs and/or density bonus rate preliminary options, each payable for different projects across the District. As a result, **a Hybrid Program approach that combines the following is the preliminary recommendation of the Discussion Paper.** This preliminary recommendation will undergo further review, discussion, and refinement in Phase 3 and 4 of the Program.

The preliminary recommendation of a hybrid approach consists of the following:

- **Negotiated CACs and Affordable/Inclusionary Housing Contributions** on a site-by-site basis for projects over a given size threshold (for example multi-phased developments or those with over 500 units).
- **Target Fixed Rate CACs or Density Bonus Zoning** for most projects (below the negotiation threshold) up to the maximum density envisioned in the future area plans, and a negotiated additional CAC if a proposal exceeds that max density.
- **Variable Target Fixed Rate CACs and /or Density Bonus Zoning** rate by project type and local geography.

Next Steps:

It is expected that a Draft Community Amenity Contribution and Inclusionary Housing Program will be delivered for public input in the coming months, and that a final Draft Program will be presented to Council for consideration in early 2023.

For questions on the Project and details surrounding the Discussion Paper, please contact:

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