City of Richmond

Report to Committee

To:	Planning Committee	**Date:**	January 13, 2015
From:	Cathryn Volkering Carlile General Manager, Community Services	**File:**	08-4057-01/2015-Vol 01
Re:	**Richmond Affordable Housing Contribution Rate and Reserve Fund Strategy Review- Recommendations for Stakeholder Consultation**		

Staff Recommendation

1. That the report titled, "Richmond Affordable Housing Contribution Rate and Reserve Fund Strategy Review" dated January 13, 2015 from the General Manager of Community Services be received for information.
2. That Staff be directed to seek comments from the development community and other key stakeholders regarding the recommended Affordable Housing Contribution rates and report back to Planning Committee.
3. That development applications already received and being processed by the City, prior to adoption of the proposed rates, be grandfathered with existing Affordable Housing Contribution rates.
4. That approved rates undergo periodic review to account for current market conditions and affordable housing demands.

Cathryn Volkering Carlile
General Manager, Community Services
(604-276-4068)

Att. 1

REPORT CONCURRENCE			
ROUTED TO: Development Applications Finance	**CONCURRENCE** ☑ ☑		**CONCURRENCE OF GENERAL MANAGER**
REVIEWED BY STAFF REPORT / AGENDA REVIEW SUBCOMMITTEE		**INITIALS:**	**APPROVED BY CAO**

Staff Report

Origin

At the Council meeting, held May 28, 2007, Council adopted the Richmond Affordable Housing Strategy. As part of the Strategy, Council adopted the following Affordable Housing Contribution rates where a cash contribution for affordable housing is received under a statutory density bonusing approach for rezoning applications received after July 1, 2007:

a. $1 per square foot from single family subdivision developments;

b. $2 per square foot from townhouse developments; and

c. $4 per square foot from apartment and mixed use developments involving 80 or less residential units.

A review of the existing rates and the City's Affordable Housing Reserve Fund strategy is being conducted as a key component of the overall Affordable Housing Strategy update that is currently underway. The Affordable Housing Contribution Rate and Affordable Housing Reserve Fund strategy review is intended to provide an updated resource to support the City's decisions and resource allocations on affordable housing matters, in accordance with the City's Affordable Housing Strategy and related City policies.

The purpose of this report is to provide Council with recommended adjustments to the cash-in-lieu affordable housing rates. The report is timed to coincide with another report appearing on this Planning Committee agenda titled: "Single Family Subdivision Rezoning Policy-Affordable Housing Considerations and Proposed Amendments". The information and recommendations contained in this report will provide Council with the required information in order to review the Single Family Affordable Housing Contribution rate recommendations.

This report supports Council's Term Goal #2 Community Social Services:

> *To develop and implement an updated social services strategy that clearly articulates and communicates the City's roles, priorities and limitations with respect to social services issues and needs.*
>
> *2.5. Development of a clearer definition of affordable housing priorities and subsequent utilization of affordable housing funding.*

The community benefits that this report addresses are:

- Creating affordable housing promotes more intensive and efficient use of land and buildings by optimizing public investment in meeting the community's built and social infrastructure needs; and

- Providing affordable housing enables low to moderate income households to continue living in areas close to work, school, informal/formal supports and community connections.

Analysis

Affordable Housing Contribution Rate and Affordable Housing Reserve Fund Strategy Overview

The Affordable Housing Strategy, Affordable Housing Reserve Fund Policy 5008 and Zoning Bylaw 8500 Section 5.15 create a City policy framework to articulate affordable housing priorities, collect developer contributions, and manage the City's affordable housing reserve funds to provide resources to meet the specific housing and support needs of priority groups.

The City's Affordable Housing Reserve Fund was not intended to be the sole source of funding for development and operation of affordable housing in the City. Rather, its aim was to help the City to plan and, as resources and budgets are available, support affordable housing development opportunities through collaboration with senior levels of government and other partners to:

- Develop and implement a strategic land acquisition program; and
- Collect monies to be utilized first and primarily towards subsidized rental housing capital development.

The City's Affordable Housing Strategy was adopted on May 28, 2007 and the density bonusing approach for multi-family and single family rezoning applications was approved for applications received after July 1, 2007. Through the Strategy, each apartment and high-rise development containing more than 80 residential units are asked to build at least 5% of the total residential building area as low end market rental units (i.e. excluding townhouse developments). In addition, the following cash-in-lieu contribution rates for developers seeking increased density were established:

- $1 per total buildable square foot on all new houses to be constructed or a built secondary suite or coach house unit on 50% of the new lots created through single family subdivision rezoning applications.
- $2 per square foot from townhouse developments; and
- $4 per square foot from apartment and mixed-use developments involving 80 or less residential units.

As the affordable housing contribution rates have been in place since the Strategy was adopted, it was considered timely to initiate a reassessment. As part of the comprehensive Affordable Housing Strategy review, G.P. Rollo and Associates (GPRA), Land Economists, have been contracted by the City to:

- Review the City's current affordable housing contribution rates;
- Determine appropriate affordable housing contribution rates for new development; and
- Generate and forecast the best approach to manage the City's Affordable Housing Reserve Funds, through partnership, to meet current and future local affordable housing demand.

Also, the information generated from the affordable housing contribution rate and reserve fund review is intended to be a resource, both for the City and its external partners to:

1. Clarify established affordable housing contribution rates that reflect current market conditions and housing/population growth demands;
2. Provide contribution projections and strategic directions about how Richmond's growing affordable housing demands can be partially met through utilization of the City's Affordable Housing Reserve Funds; and
3. Inform and advance City affordable housing policy development, resource allocation and partnership opportunities.

Affordable Housing Contribution Rates

Estimated housing demands were established by Metro Vancouver as part of it Regional Growth Strategy and by the City of Richmond and McClanaghan & Associates during the Affordable Housing Strategy development process. The estimated unit totals project affordable housing demand for a 30 year period through 2041, as reflected below:

Estimated Need/Target by 2041	**Metro Vancouver**	**City of Richmond**	**McClanaghan & Asc.**
Subsidized Rental Housing	2,520	2,190	1,500
Low End Market Rental Housing	7,611	8,370	2,850
Entry Level Homeownership	8,399	7,290	1,800

As of July 1, 2007 to December 31, 2014, the City has secured the following market rental and affordable housing commitments:

Housing Type	**Total Units**	**Total Square Feet**
Subsidized Rental Housing	477	
Low End Market Rental Housing	272	
Market Rental Housing	411	
Entry Level Homeownership	19	
Secondary Suite/Coach House units	126	
Square feet of affordable housing floor space secured through phased developments (Unit totals- TBD)		108,202 ft^2
TOTAL	**1,305**	**108,202 ft^2**

As the table reflects, a total of 1,305 units have been secured, plus 108,202 ft^2 of affordable rental housing space, with unit counts to be determined when development plans are finalized. Final occupancy has been achieved for 73 secured affordable rental units in 6 developments. In addition, there are 3,797 assisted affordable housing units or beds being operated in Richmond which have been established prior to our outside of the Strategy. This combined total represents approximately 5,102 secured affordable housing or assisted housing options in the City.

Optional Affordable Housing Contribution Rates

The City required a review of its current affordable housing contribution rates in order to reflect changes in the housing development market and local land values since the rates were established in 2007. Also, the review helped to inform potential City funding strategies to support meeting a portion of the City's estimated affordable housing need.

GPRA utilized a rate analysis method to ensure that any projected increased rate would allow developers to still achieve an acceptable return on their projects, while providing a fair and reasonable affordable housing contribution to the City as part of their new development requirements (Executive Summary presented in Attachment 1).

Utilizing this rationale, GPRA analyzed current affordable housing contribution rates and put forward two potential Affordable Housing Contribution rate increases that provide varying levels of projected revenues and unit totals that could be generated through City investment of its Affordable Housing Reserve Funds towards affordable housing development. Analysis is being provided to compare the existing rates to the two optional rate increases presented by GPRA: Option 1, Conservative Increase, and Option 2, Recommended Increase.

Current Affordable Housing Contribution Rates

Type of Development	Rate per S.F
Single Family dwellings	$1.00
Townhouse developments	$2.00
Apartments	$4.00

The existing contribution rates are projected to generate $38.9M in revenue plus current funds and interest, which would finance approximately 1,174 subsidized rental units through 2041, averaging 39 units per year, with no monies available for other Strategy priorities. The calculation is based on the City providing 20% of the cost of a project in partnership with Senior Government and/or private and community partners.

GPRA's research indicates that higher contribution rates are possible for all types of development except for duplex rezoning applications. All other development types show the ability to support the recommended options as follows:

Option 1: GPRA Conservative Increase

Type of Development	Rate per S.F
Single Family dwellings	$1.14
Townhouse developments	$2.28
Apartments	$4.55

Affordable housing funds collected from Option 1, a conservative increase, would generate $44.2M (plus current funds and interest), which would finance 20% of approximately 1,261 subsidized rental units through 2041, an average of 42 units per year, again with no money available for other Strategy priorities.

Option 2: GPRA Recommended Increase

Type of Development	Rate per S.F
Single Family dwellings	$2.00
Townhouse developments	$4.00
Apartments	$6.00

Affordable housing funds collected from Option 2, GPRA's recommended increase, would generate $76.1M (plus current funds and interest), which would allow the City to fund 20% of 1,978 subsidized rental units, an average of 66 units per year, but would also still allow for any additional monies to be put towards all three Strategy priorities.

Analysis Summary

The Strategy established targets for each of its priorities that assumed that a subsidized rental unit would cost $200,000, approximately, to develop and that through City policies affordable rental market units could be built and secured, as well as affordable homeownership encouraged through policy incentive. The subsidized rental housing target includes a 20 percent City funding contribution towards subsidized rental housing and assist factors from other levels of government and/or community partners. The current targets are as follows:

Strategy Priority	**Annual unit target**	**Assist Factor/Policy Mechanism**
Priority 1 Subsidized Rental	25 to 50 units	25 units representing an 80% assist factor from other partners and 50 units representing a 90% assist factor.
Priority 2 Low End Market Rental	95 units	25 units through 5% built requirement in developments with over 80 residential units; and 75 units through secondary suites (Near market due to size and dwelling type, but not secured as Affordable Housing through a Housing Agreement).
Priority 3 Entry Level Homeownership	60 units	Created through City policy initiatives that encourage smaller units, innovative design and/or non-profit sector involvement.

Both presented options for contribution rate increases project monies being spent over the next 30 years in projects where the City provides 20 percent of developing an affordable housing project, with other funding coming from partnerships with other levels of government or private/non-profit partners. A comparison of the projected revenues and total number of potential built units from each option is presented below:

Contribution Rate Options	**Total Projected Revenue to 2041**	**Total Number of Projected Units**
Current Rates	$38.9M	1,174 subsidized rental units (39 units per year, average)
Option 1 GPRA Conservative Rate Increase	$44.2M	1,261 subsidized rental units (42 units per year, average)
Option 2 GPRA Recommended Increase	$76.1M	1,978 subsidized rental units (66 units per year, average) and surplus funds could go towards other Strategy priorities and policy incentives.

The current contribution rates and increased rate options would meet the Strategy's current achievable goal or target of 25 to 50 subsidized rental units per year; however, Option 2, the recommended increase, would support the City's ability to provide the largest contribution in meeting the growing housing demand for low to moderate income households. Also, Option 2 would support future opportunity to diversify the City's ability to contribute funding to policy initiatives that would encourage diverse tenure and housing types along all points of the affordable housing continuum.

GPRA's conservative and recommended rate options do represent a substantial increase over current affordable housing contribution rates currently required in most parts of the City. However, GPRA revealed through employing development sensitivity analysis that even the highest rate would account for less than 2.5% of the total project cost for development.

It must be stressed that GPRA recommends that rates not exceed the Option 2 values so as not to discourage redevelopment in the city. Further, GPRA does not recommend setting lower rates based on hypothetical market downturns; rather, they suggest that periodic rate reviews be conducted to ensure adjustments are made to compensate for any longitudinal changes in the market.

Staff support Option 2, with the new rates being set at:

- $2 per square foot per total buildable area for standard single family subdivision rezoning applications,
- $4 per square foot per total buildable area for townhouse development, and
- $6 per square foot per total buildable area for apartment developments with fewer than 80 units with periodic rate reviews being conducted for the reasons listed above.

Affordable Housing Reserve Fund Strategy considerations

As part of the analysis, affordable housing practices were reviewed from other jurisdictions in Metro Vancouver and elsewhere and found very similar approaches that are employed by the City of Richmond with respect to Affordable Housing Reserve fund management and policy practice. While a more in depth assessment would be required, some ideas that may be considered are:

Practice	Outcome/Consideration
Seeking additional revenue sources for the Affordable Housing Reserve Fund (i.e. partial transfer from general revenue or other funding)	Sole reliance on collected contributions from new development generates dependency of meeting affordable housing demands on development and business cycles.
Consider allocation of funds to all 3 Strategy priorities	Diversifying allocations of funds may increase partnership opportunities in meeting affordable housing needs along all points of the affordable housing continuum.
Potential purchase and refurbishment of existing older rental properties or hotels	May support utilization of existing built infrastructure to secure affordable rental or specialized housing.
Permissive property tax exemptions to affordable housing developers for a period of time.	Provides financial relief for the first 3-7 years of operation to support financial sustainability of the non-profit housing provider.
Encourage development of a broader variety of housing forms	Supports flexible design, stratified units/lock off suites, flexible design, and lower levels of finishing to improve affordability.

In conclusion, Staff recommends that:

- The GPRA Option 2 Affordable Housing Contribution rates (i.e. $2 from single family subdivision developments, $4 from townhouse developments, and $6 from apartment and mixed use developments involving 80 or less residential units), with staff being directed to seek comment from the development community and key stakeholders and report back to Committee and Council prior to adoption of the new proposed rates.

- The revised rates not be applied to rezoning applications that are currently under staff review provided that they are presented to Council for consideration within 1 year of Council's adoption of the revised Affordable Housing Contribution Rates.

- Any new single family rezoning application received after Council's adoption of the revised Affordable Housing Contribution Rates be subject to the new contribution rates.

- That approved rates undergo periodic review to account for current market conditions and affordable housing demands.

With respect to future rate adjustments, Staff considered indexing rates annually vs. periodic review. However, at this time, Staff recommend periodic affordable housing contribution rate reviews to align with the City's current DCC review practices.

The proposed affordable housing contribution rates are anticipated to elicit comment and potential concern by some members of the development community. Staff anticipates facilitating discussions with the development community in February 2015 and will utilize Let's Talk Richmond, the City's social media tool, to receive feedback from other key stakeholders and community members about the recommended rates. The feedback received will be taken into consideration in preparation of the final rate recommendations anticipated to be presented to Council in Spring 2015.

Financial Impact

There will be no financial impact to administer the proposed changes to the Strategy.

Conclusion

The recommendations provided in this report will support Council in their review of the report appearing on this Planning Committee agenda, "Single Family Subdivision Rezoning Policy-Affordable Housing Considerations and Proposed Amendments".

In addition, the proposed recommendations cited in this report will support the City to advance its affordable housing objectives while balancing development requirements with growing affordable housing demands in our City, to ensure low to moderate income households can live, work and contribute to Richmond's local and diverse economy and community.

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Affordable Housing Coordinator
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Att. 1: Richmond Affordable Housing Strategy Reserve Fund Strategy Review- Executive Summary

EXECUTIVE SUMMARY – RAH RESERVE FUND STRATEGY REVIEW

The City of Richmond established the Affordable Housing Statutory Reserve Fund in 1991 and their Affordable Housing Strategy in 2007 to support the implementation of the City's Affordable Housing priorities assisting in the provision of Subsidized Housing, Low-End Market Rental, and Entry-Level Home Ownership in the City of Richmond.

The 2006 Regional Growth Strategy from Metro Vancouver estimated the annual needs in the City of Richmond at 73 Subsidized Housing units, 279 Low-End Market Rental units, and 243 Entry-Level Ownership units from 2006 to 2041. A separate piece of analysis in 2006 by McClanaghan & Associates for the City was prepared to determine the ability of the City to meet the Metro Vancouver estimates. The McClanaghan & Associates report indicated that the City could reasonably assist in the provision of 25 to 50 Subsidized Housing units, 95 Low-End Market Rental units, and 60 Entry-Level Ownership units annually based on an 80/20 split of funding between other sources and the City respectively. The City then adopted their own annual targets based on the information from both reports. The following table presents the aggregate targets from 2006 to 2041 as estimated by Metro Vancouver, McClanaghan & Associates, and the City of Richmond:

Table 1: Affordable Housing Needs and Targets by Priority 2006 – 2041

Estimated Need/Target by 2041	Metro Vancouver	McClanaghan & Associates	City of Richmond
Subsidized Housing	2,520	1,500	2,190
Low End Market Rentals	7,611	2,850	8,370
Entry Level Ownership	8,399	1,800	7,290

Since July 2007 Single Family residential rezonings have been required to provide either secondary suites or coach houses in at least 50% of new lots created or a cash-in-lieu contribution of $1 per square foot of gross building area (GBA) to the Affordable Housing Reserve Fund. Townhouse developments have been required to contribute a cash-in-lieu contribution to the Fund at $2 per square foot of GBA and apartment developments less than 80 units have been required to contribute $4 per square foot of GBA.

It was not intended for the Affordable Housing Reserve Fund to serve as the sole funding support for development and operation of affordable housing in the City, but rather to partner with all levels of government along with private sector and community providers to meet the needs of those in Richmond requiring affordable housing. However, this goal has been hampered by decreased funding from senior government for affordable housing with increased burden placed on individual municipalities to bridge the funding gap.

With this in mind the City of Richmond retained G. P. Rollo & Associates (GPRA) to assist the City in determining:

A. Appropriate Affordable Housing contribution rates for new development in the City; and

B. How best to manage the City's Affordable Housing Reserve Fund.

The review of contribution rates was deemed necessary by the City to reflect changes in market conditions since the rates were established in 2007, increased estimates of need, and a desire to update rates to 2015 values as the existing rates were set prior to the adoption of the Affordable Housing Strategy in 2007.

A key issue for GPRA was to ensure the increased rates would allow developers to still achieve an acceptable return on their projects. GPRA undertook an economic review of how the current rates were established as well as proforma analyses in order to determine potential new rates and their impact on developers.[1]

GPRA has put forward two potential Affordable Housing contributions rate increases:, an increase to $1.14 for single family dwellings, $2.28 for townhouse and $4.55 for apartments, (***Option 1: Conservative Increase***) and the other being an increase to $2.00 for single family dwellings, $4.00 for townhouse and $6.00 for apartments (***Option 2: Recommended Increase***). GPRA then prepared an estimate of revenues to be collected through to 2041 based on housing demand projections for the City by both Metro Vancouver and Urban Futures using current rates and both the Conservative and Recommended rates.

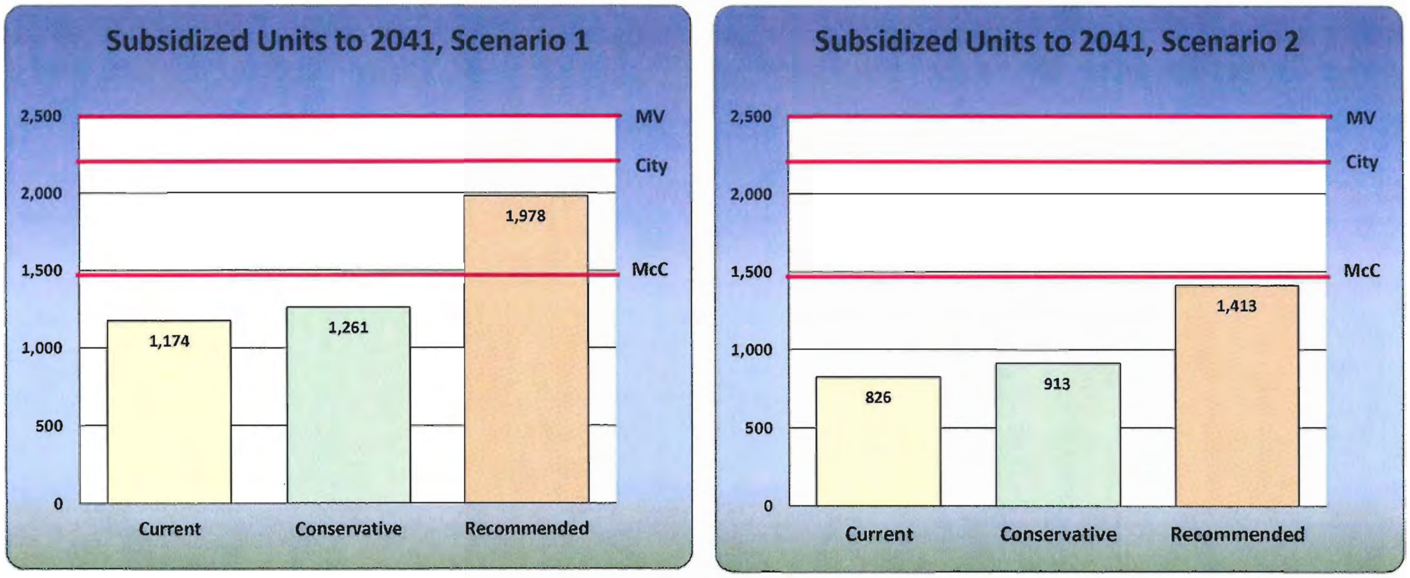
Two scenarios were identified for how funds were to be allocated among the City's three priorities: in **Scenario 1** *all funds would be allocated to Priority 1 – Subsidized Housing until the City's target of 73 units per year was met*; in the **Scenario 2** *funds would be split between all three priorities.* Even by implementing the Recommended Increase and devoting all funds to Priority 1 the City could not meet their goal of 73 units per year of subsidized housing, and would have no monies available for either of Priority 2 or 3, and would still rely upon 80% of the funding from senior levels of government or from partnering with private housing providers or non-profits.

However, by implementing the Recommended Increase and choosing to allocate funds to all three priorities the City could meet or exceed McClanaghan & Associates 'achievable goal' of 25 to 50 subsidized units per year and provide funding to both other priorities.

The two figures on the following page show a comparison between the two scenarios of the total Subsidized Units potentially funded through 2041 with the three contribution rates. The units funded can also be compared to the needs and targets (see Table 1 above) denoted by the horizontal lines **MV** (Metro Vancouver needs), **City** (City of Richmond Targets in the AHS), and **McC** (McClanaghan & Associates 'achievable targets')

[1] Economic Analyses on gross contribution potential were completed in October 2011 and then reviewed in November 2013 and again in January 2015 and reflect market conditions at that time. Sensitivity analysis was undertaken to account for potential downward trends in the market, but significant and/or rapid market fluctuations could impact the results and require additional analyses.

Figure 1: Comparison of Subsidized Units Funded through 2041 Scenario 1 vs. 2



As part of this process GPRA conducted a review of affordable housing practices in other jurisdictions in the Lower Mainland and elsewhere and found very similar approaches in place as those employed by the City of Richmond.

However, there are some ideas to be considered, including: seeking additional sources of revenue for the Fund; allocation of funds between all three priorities; consider grants, tax exemptions, and other incentives to encourage rental/affordable housing; allocation of fund to ongoing management of affordable housing units; fast tracking rental/affordable housing development approvals; direct subsidies to at-risk; offering low-interest/deferred loans for qualified entry level purchasers; incentivize innovation for affordable housing.

G. P. Rollo and Associates recommends that the City implement the Recommended Increase for Affordable Housing contributions as this will allow the Fund to meet targets set by McClanaghan & Associates for subsidized housing units and for funding for other affordable housing priorities. We also recommend allocating funds to all three priorities to provide at least some assistance to other needs beyond subsidized housing. This, along with consideration of some of the recommendations identified in the review of other jurisdictions will position the City to move forward in their Affordable Housing Strategy to meeting their goals.