City of Richmond

Report to Committee

To:	Planning Committee	**Date:**	May 2, 2007
From:	Jean Lamontagne Director of Development Terry Crowe Manager, Policy Planning	**File:**	08-4000-00/Vol 01
Re:	**Developer Voluntary Contributions Study**		

Staff Recommendation

That, as outlined in the report from the Director of Development and Manager, Policy Planning dated May 2, 2007:

1. Council endorse for use Option 2 – "Shelf Ready" Residential Density Bonus Zones for residential rezoning applications submitted after July 1, 2007; and

2. Staff review and update the existing policies or approaches to receiving developer voluntary contributions to amenities besides affordable housing to improve their effectiveness.

Jean Lamontagne
Director of Development

Terry Crowe
Manager, Policy Planning

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ROUTED TO:	**CONCURRENCE**	**CONCURRENCE OF GENERAL MANAGER**	
Law	Y ☑ N ☐		
Budgets	Y ☑ N ☐		
Real Estate Services	Y ☑ N ☐		
PRCS Planning and Projects	Y ☑ N ☐		
REVIEWED BY TAG	YES ☑ NO ☐	**REVIEWED BY CAO**	YES ☑ NO ☐

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Staff Report

Origin

The purpose of this report is to bring to a conclusion the work responding to requests from Planning Committee and Council regarding developer voluntary contributions (e.g., to amenities such as affordable housing).

Findings Of Fact

Over the past year, staff have undertaken a considerable amount of work to determine the best approach for obtaining developer voluntary contributions (previous reports on this matter were referred to as "A City-Wide Interim Voluntary Amenity Contribution Guideline").

Attachment 1 provides a historical summary of this work, which is attached to this report for reference purposes only.

As a result of this work, staff are presenting two options for consideration by Council which each provide a viable approach to obtaining developer voluntary contributions:

Option 1: Case By Case Contributions; and

Option 2: Density Bonusing.

Option 1: Case By Case Contributions

Background:

Historically, developer voluntary contributions have been received on a case by case basis.

Typically, the developer would volunteer the contribution as part of a rezoning application (and occasionally a development permit application).

While developers could build amenities on the site, the developers have usually volunteered a cash in lieu contribution.

Due to the fact that contributions are voluntary and provided on a case by case basis, staff considered whether the City could implement guidelines or policies to establish a rate to provide clarity and consistency. Unfortunately, there is no express authority in municipal legislation to allow for the imposition of such a guideline or policy. As such, staff have continued to accept voluntary contributions primarily on a case by case basis without the benefit of a guideline or policy.

The Official Community Plan (OCP) contains policies that support developer voluntary contributions for affordable housing, child care, public art and indoor amenity space.

Council has also adopted specific policies or procedures regarding developer voluntary contributions for the public art program and cash in lieu of indoor amenity space.

In addition to the aforesaid amenities, developer voluntary contributions have been made in the past for neighbourhood parks, transit oriented development and other amenities or services that benefit not only the development but the community at large.

It is proposed that the aforesaid OCP and Council policies be reviewed as part of the implementation strategies for the updates to the City Centre Area Plan (Fall 2007) and OCP (Winter 2008).

The interim amenity guidelines for the West Cambie – Alexandra Neighbourhood will be reviewed as specific rezoning applications are processed this year.

Pros and Cons of Case by Case Developer Contributions:

CASE BY CASE CONTRIBUTIONS	
PROS	**CONS**
• existing process	• little rationale for contributions
• greatest flexibility	• uncertainty
• common practice among municipalities	• little clear Council direction
• can vary on case by case basis	• lack of consistency
• City can encourage maximum contribution	• dependent on staff expertise

Proposed Legislation:

New changes to zoning and development legislation have been introduced by the Province through *Bill 11, Community Services Statute Amendment Act, 2007*. Additional provisions to the *Local Government Act* are expected to come into force at some point later this spring or summer.

These provisions would provide clear statutory authority to enter development agreements whereby the developer provides the City with amenities in exchange for a commitment that any changes to zoning bylaws will not apply to the development while the agreement is in effect, unless the developer agrees that they should apply. Some exceptions are made for addressing hazards, court orders, or to comply with federal and provincial laws.

A "phased development agreement" gives both City and developer the benefit of certainty. Such an agreement will require a bylaw and a public hearing, and would be most suitable for large, unique or phased residential or mixed developments, such as comprehensive development (CD) zones.

Once this new legislation is enacted, staff will consider its suitability for obtaining amenities and will report back to Council with recommendations.

Conclusion:

The historical process of receiving voluntary contributions from developers on a case by case basis in relation to amenities such as affordable housing could continue. However, to date there is no express authority in municipal zoning legislation for a policy or guideline that would establish contribution "rates" for amenities in relation to zoning applications. Due to recent developments in case law, the Law Department has advised against adopting such guidelines or policies. Therefore, staff have concluded that, due to legal considerations and the lack of certainty or consistency with case by case contributions, this option is not the recommended approach.

Option 2: Density Bonusing

Density Bonusing Defined:

Density bonusing is a tool used by local governments to allow developers to build to a higher level of density (i.e., floor area or space ratio (FAR/FSR) or units per hectare) in exchange for building or paying cash for affordable housing units or amenities that benefit the community.

For the developer, the bonus system is voluntary and is an incentive rather than a compulsory requirement.

Density bonusing is an effective way to achieve private investment in public amenities. According to the Province, some municipalities have indicated that affordable housing is one of the more complicated amenities to provide as a density bonus provision. When given an option, developers will often choose to contribute to something else, such as a park. A density bonusing system is not intended to provide the only solution to a community's housing needs, or lack of community amenities, but to provide a useful tool to assist in addressing these issues.

Local Government Act:

The *Local Government Act* specifically permits municipalities to density bonus to obtain amenities and affordable housing.

Specifically, the *Act* states that the Zoning Bylaw may establish different density regulations and establishes the following conditions that may be included as conditions entitling an owner to a higher density:

- *Conditions relating to the conservation or provision of amenities, including the number, kind and extent of amenities;*
- *Conditions relating to the provision of affordable and special needs housing, as such housing is defined in the bylaw, including the number, kind and extent of the housing;*
- *A condition that the owner enter into a housing agreement before a building permit is issued in relation to property to which the condition applies.*

Benefits:

The legal advice the City has received is that the density bonusing option is the most reliable, sound approach to increasing affordable housing through developer contributions at rezoning.

The density bonusing approach is fully consistent with the *Local Government Act*, has been used in other Lower Mainland municipalities and was suggested by UDI and various developers.

Official Community Plan:

The OCP recognizes the use of density bonusing in the following policy:

3.2 Housing:

"Explore the use of tools like density bonusing and housing agreements to achieve rental, and especially low-end-of-market rental, e.g., student housing, special needs housing, housing for lone parents."

Limitations:

In the past, the density bonusing option has been viewed as having the following limitations to its potential use in Richmond:

- *some areas of the City are already zoned to their ultimate density (e.g., the Downtown Commercial District (C7) in the City Centre);*
- *there is resistance to changing the existing zoning of some areas (e.g. the C7 zone);*
- *the density bonus, in some cases, may be difficult to achieve because:*

- ➢ *the airport restricts the height of buildings;*
- ➢ *soil conditions limit going underground with parking; and*
- ➢ *the Building Code increases the requirements for structures over 4 stories.*

Notwithstanding these limitations, staff have seriously explored the use of density bonusing as a means of achieving the objectives of the *Richmond Affordable Housing Strategy* and receiving either affordable housing built or cash contributions towards affordable housing when a residential rezoning application is involved.

Two Strategies:

Specifically, two strategies were examined within the residential density bonusing option:

1) *Amend the existing zones to lower the existing base density and to include a density bonus for affordable housing (the **"Down Zoning Strategy"**); or*

2) *Draft new zones with a lower base density and a density bonus for affordable housing and leave the existing zones in place (the **"Shelf Ready Strategy"**).*

Down Zoning Strategy - Residential Density Bonus Zones: *(NOT RECOMMENDED)*

Under this strategy, the following existing zones in the *Zoning and Development Bylaw* would be amended because they are the ones that are typically used for residential rezoning applications:

- *Single-Family Housing District (R1)*
- *Single-Family Housing District (R1/0.6)*
- *Coach House District (R9)*
- *Townhouse District (R2)*
- *Townhouse District (R2/0.6)*
- *Townhouse District (R2/0.7)*
- *Townhouse & Apartment District (R3)*
- *High Density Residential District (R4)*
- *Medium-Density Residential District (R7)*
- *Steveston Commercial (2-Storey) District (C4)*
- *Steveston Commercial (3-Storey) District (C4)*
- *Downtown Commercial District (C7)*

In each of these zones, the existing base density would be lowered and a density bonus would be added for affordable housing.

For example, the existing Single-Family Housing District (R1) zone would be amended to:

- lower the existing base density from a floor area ratio (FAR) of 0.55 to a new base density of 0.5 FAR; and
- establish a new permitted density of 0.55 FAR if the single-family residence contains a secondary suite (which may or may not be regulated by a housing agreement).

As another example, the existing Townhouse District (R2/0.6) zone would be amended to:

- lower the existing base density from a FAR of 0.6 to a new base density of 0.5 FAR; and

- establish a new permitted density of 0.60 FAR if the townhouse rezoning application contributes $2.00 per buildable square foot towards the affordable housing reserve.

Staff decided not to recommend this strategy for the following reasons:

- *it would put all of the existing uses that were built under the current zoning into a "legal, non-conforming" status (e.g., if an apartment building totally burnt down, the owner could not simply rebuild - the new building would have to comply with the new zoning), which could affect the ability to obtain insurance and resale values;*
- *existing property owners would "lose" the density to which they are now entitled (e.g., in the R1 example above, the existing single family residential property owners would "lose" 0.05 FAR of building area if they just want to build a single family house without a secondary suite);*
- *it is expected that there would be considerable opposition to "down zoning" properties by reducing the existing base density in various zones across the City; and*
- *the intention is to apply the density bonusing approach to new rezoning applications received after July 1, 2007 not to existing zoned properties.*

Pros and Cons of the Down Zoning Strategy:

AMENDING EXISTING ZONES TO INCLUDE A DENSITY BONUS	
PROS	**CONS**
• same rules are applied universally to everyone	• impacts existing residential property owners in Richmond
• is the most comprehensive approach to achieving affordable housing	• the intention is to require only rezoning applications to provide affordable housing
• removes the possibility of a rezoning applicant trying to avoid the affordable housing/density bonus	• puts rezoning applications in-stream in an awkward position
• could be implemented now (subject to input from the public via a Public Hearing)	• it is expected that Council will receive considerable opposition to this option (especially at the Public Hearing)
• has been done on a smaller scale by other municipalities	• adversely affects too many areas (e.g., Steveston; City Centre)
• could help reduce the possibility of land being sold at rezoned/inflated values	• may be viewed by property owners as depreciating their land values

Conclusion:

The strategy of amending the existing zones to lower the existing base density and to include a density bonus for affordable housing (i.e., "down zoning") is not recommended by staff.

Shelf Ready Strategy - Residential Density Bonus Zones: *(RECOMMENDED)*

The second strategy, which is supported by staff, is to have the following draft new zones "shelf ready" with the density bonus provisions included in them:

- Single-Family Housing District (R1/0.6D)
- Coach House District (R9D)

- Townhouse District (R2/0.6D)
- High-Density Residential District (R4D)

Each of aforesaid zones is the same as the existing zone with the same title and has all of the same permitted uses, lot coverage, setbacks, heights, minimum lot size, etc. However, in each case, the base density is lower than what is currently permitted and a density bonus is added for affordable housing.

The following table summarizes the density bonusing provisions of these draft new zones which are proposed to be considered as part of the *Richmond Affordable Housing Strategy* (which will be considered at the same Planning Committee and Council meeting as this report).

PROPOSED DRAFT NEW ("SHELF READY") DENSITY BONUS ZONES *(RECOMMENDED OPTION)*				
Draft Zone (Name/Symbol)	**Base Density (FAR)**		**Total FAR with Density Bonus**	**Density Bonus Requirements**
	Existing Zone	**New Zone**		
Single-Family Housing District (R1/0.6D)	0.55	0.4	0.55	Secondary suite with a housing agreement on: • all single rezoned lots; and • at least 50% of any lots created through rezoning/subdivision applications
Coach House District (R9D)	0.55 + 0.05 for coach house	0.4	0.6	Coach house with a housing agreement on: • all single rezoned lots; and • at least 50% of any lots created through rezoning/subdivision applications
Townhouse District (R2/0.6D)	0.6	0.4	0.6	$2.00 per buildable ft^2 cash contribution The City does not want to allow secondary suites in townhouse developments because of BC Building Code issues nor does it want 1-2 affordable townhouse units scattered in multiple sites throughout the municipality
High-Density Residential District (R4D) Applicable to mixed commercial/residential uses and multiple-family dwellings only	3.0	2.4	3.0	80 units or less: $4.00 per buildable ft^2 cash contribution The City does not want less than 4 affordable apartment units scattered in multiple sites throughout the municipality More than 80 units: 5% building area (minimum 4 built units)

Specifically, as recommended in the staff report on the *Richmond Affordable Housing Strategy*, it is proposed that:

- *these four draft new residential density bonus zones be considered for all single-family residential, multiple-family residential and mixed use rezoning applications involving a residential component received after July 1, 2007;*
- *the rezoning applicant has the option of:*
  - *building to the reduced base density, or*
  - *building at the density bonus with the affordable housing or making a cash contribution to affordable housing;*
- *staff would encourage rezoning applicants to apply for the new zones and would likely support applications submitted pursuant to the new density bonus zones;*
- *where an applicant chooses not to follow staff's recommendations and applies to rezone to an existing zone, Council may consider rezoning applications that do not utilize the affordable housing density bonusing approach and do not have the support of staff;*
- *the draft new zones incorporate the following City staff proposed developer voluntary contributions where affordable housing will not be built:*
  - *$2.00 per buildable square foot from townhouse rezoning applications; and*
  - *$4.00 per buildable square foot from apartment and mixed use rezoning applications involving a residential component where 80 or less residential units are involved;*
- *affordable housing units that are built by developers will be encumbered by the registration of a housing agreement against title. The housing agreement will provide for, among other things, who can rent the unit (eligible tenants with household incomes below $37,700). There are penalties if the terms of the housing agreement are breached.*

Pros and Cons of the Shelf Ready Option:

DRAFT NEW ("SHELF READY") ZONES INCLUDING A DENSITY BONUS *(RECOMMENDED OPTION)*	
PROS	**CONS**
• new zones only apply to rezoning applications received after July 1, 2007 (not existing zoned properties or "in-stream" rezoning applications)	• existing zones are not changed (e.g., R1, R2/0.6, R9 and C7), creating numerous similar zones
• does not affect existing zoned properties	• applications for existing zoning (staff may not support non-density bonus rezoning)
• proposed contributions specified in density bonus bylaw provide certainty for developers	• Council may be asked to deny some applications if they don't build or contribute towards affordable housing
• is less likely to be opposed as it does not affect the majority of property owners	• draft zones are only "shelf ready" and will not be adopted until later in the year
• can be implemented on a case by case basis	• as options are available, there is some lack of certainty until Council decides on each application
• will generate either built affordable housing or cash contributions to affordable housing	• child care and other amenities are not included (but can be received on a case by case basis)
• is voluntary in that a developer may chose to build to the lower density or build affordable housing units/make a cash contribution in accordance with the applicable zone	• the housing agreement to be registered on title restricts who the owner may allow to use the affordable housing unit

Conclusion:

The strategy of endorsing the draft new zones with a lower base density and a density bonus for affordable housing and leaving the existing zones in place (the Shelf Ready Option) is recommended for approval as part of the Richmond Affordable Housing Strategy staff report.

Analysis

The following are some of the questions which staff have heard about the proposed developer voluntary contributions.

Why Not Include Other Amenities Besides Affordable Housing?

At this point in time, it is only proposed to include affordable housing in both of the density bonus bylaw strategies. The reasons for this are:

- *a lot of rigour is required to include developer voluntary contributions into a density bonus bylaw (e.g., the number, kind and extent of each amenity);*
- *affordable housing is viewed as the immediate priority and is one of the most complicated amenities to obtain; and*
- *the success of this approach should be monitored before applying it to other amenities.*

As part of the implementation strategies to the updates of the City Centre Area Plan and OCP, staff will examine including other amenities such as child care into future density bonusing bylaws.

In the meantime, developer voluntary contributions for amenities such as child care and public art are still possible and will continue to be considered on a case by case basis.

Has There Been Adequate Consultation?

Wherever appropriate, staff have shared the information on the *Richmond Affordable Housing Strategy*, targets for affordable housing and the proposed density bonusing approach with UDI. In fact, numerous meetings have been held between staff and UDI in order to reach a consensus.

Both the *Richmond Affordable Housing Strategy* and *Developer Voluntary Contributions Study* have also been the subject of input from other stakeholders and the public.

Staff are satisfied that enough consultation has taken place for Planning Committee and Council to make an informed decision.

Further public input will be possible as the different OCP and Zoning Bylaw amendments proceed to Public Hearing.

Are Developers Playing The Major Role In Achieving Affordable Housing?

Attachment 2 provides information regarding the affordable housing targets and recommendations contained within the *Richmond Affordable Housing Strategy* (which will be considered at the same Planning Committee and Council meeting as this report).

As can be seen, the developers' contributions to affordable housing, whether they be cash in lieu contributions or built product, will not meet either the shortfall or annual targets for affordable housing in Richmond, but only a portion of them (e.g., typically one third or 33% of annual targets).

The City, senior governments and other housing providers will need to work together to provide the remaining two thirds (66%). This will require new and consistent senior government tax and financial incentives and affordable housing programs.

Therefore, developers are not playing the major role in achieving affordable housing in Richmond, nor are they being asked by the City to take on the role of other levels of government.

How Often Will The Developer Voluntary Contributions Be Reviewed?

One of the advantages of the density bonusing option being recommended (the "shelf ready" strategy) is that staff and Council can review each rezoning application on its own merits. This being the case, one could argue that the developer voluntary contributions will be reviewed constantly.

Furthermore, the approach of including cash contributions into future density bonusing bylaws will be reviewed:

- *in the Fall of 2007 as part of the implementation strategy for the City Centre Area Plan update (which will include Mr. Rollo's analysis on commercial rezoning applications);*
- *in the Winter of 2008 as part of the implementation strategy for the Official Community Plan update; and*
- *Annually from 2009 and beyond.*

Staff do not believe that the developer voluntary contributions should be reviewed more often because it will needlessly minimize developer and City certainty, and take away from other City and UDI priorities/work.

The development community also needs some certainty that the City's density bonus bylaws and cash contributions won't be changing too frequently.

How Do The City's Proposed Developer Voluntary Contributions Compare To Other Municipalities?

It is staff's position that the proposed density bonus cash contributions are comparable to what other municipalities accept.

For example, Vancouver City Council has adopted a community amenity contribution policy that establishes a rate of $3.00 per buildable square foot outside the City Centre. Vancouver also has a $2.00 per buildable square foot Development Cost Levy for affordable housing.

City staff have estimated that the City of New Westminster has collected approximately $4.50 per buildable square foot on a 17 storey residential tower and $6.00 per buildable square foot on the St. Mary's Hospital redevelopment.

Similarly, based on discussions with the City of Burnaby, staff have estimated that apartment developments contribute approximately $3.75 to $4.65 per buildable square foot towards amenities.

It is recognized that Burnaby only applies these voluntary contributions if a developer wants to take advantage of the City's density bonus provisions. Richmond is now proposing the same approach. If the developer applies for rezoning to the draft new zones but does not take advantage of the density bonus, no cash contribution can be expected by the City.

If the developer wants to build under the existing zoning (no rezoning), Council could decide on a case by case basis if a developer voluntary contribution could be offered and received as part of the development permit process (e.g., the $0.60 per buildable square foot that has been received on average in the past for child care or other amenities).

Has The City Listened To Developers' Concerns?

Staff have listened to the concerns expressed by UDI, the GVHBA, the development community and local small developers.

In response to these concerns, staff have:

- *utilized the services of G.P. Rollo & Associates Ltd. to determine the developers' ability to make cash contributions;*
- *used Rollo's recommended cash contribution of $2.00 per buildable square foot for all townhouse rezoning applications (not just ones involving less than 20 units);*
- *agreed not to utilize a pro forma calculating the "land lift" for townhouse developments involving more than 20 units or for low rise apartments and high rise developments (even though the pro forma may result in a better amenity package for the City);*
- *continued to assume that the density bonus cash contribution should be based on approximately 50% of the "land lift" (not 70% – 80% as done in Vancouver and New Westminster);*
- *averaged the density bonus cash contribution for apartment and mixed use rezoning applications down to $4.00 per buildable square foot (even though the two case studies for the high rise developments reviewed by Mr. Rollo indicated a possible developer voluntary contribution of $5.71 and $7.56 per buildable square foot);*
- *proposed that the density bonus cash contributions apply to residential rezoning applications received after July 1, 2007 in order to give the development community time to prepare;*
- *incorporated the cash contributions into the density bonus option; and*
- *proposed to bring forward incentives for affordable housing as part of the proposed Richmond Affordable Housing Strategy (e.g., DCC waiver; FAR exemptions; parking relaxations; expedited process; etc.).*

How Does This Relate To The City Centre Area Plan?

As part of the upcoming implementation strategy for the City Centre Area Plan update, staff will be costing out other amenities besides affordable housing such as child care, libraries, community centres, etc.

This being the case, staff recognize that the density bonusing option with cash contributions for other amenities may need to be reconsidered in the City Centre.

According to work done by Mr. Rollo, the two high rise case studies in the City Centre could consider a developer voluntary contribution of between $5.71 - $7.56 (average $6.63) per buildable square foot based on 50% of the "land lift".

In Vancouver, staff use the pro forma analysis approach to calculate developer voluntary contributions in the City Centre, and they are typically in the range of $25.00 to $80.00 per buildable square foot when applied to the increased density.

Vancouver and New Westminster tend to accept between 70% - 80% of the "land lift" on major rezoning applications. In Vancouver, the developer voluntary contribution also applies to commercial and industrial rezoning applications (not just residential rezoning applications).

Similarly, Burnaby accepts 100% of the value of the density bonus being granted at the time of rezoning.

Richmond is considering a density bonus cash contribution based on Mr. Rollo's pro forma analyses of approximately 50% of the "land lift". This conservative approach helps to address the development industry's concerns regarding profit margins, equity financing and market fluctuations.

However, the point is that:

- *the list of amenities will be expanded beyond just affordable housing as part of the implementation strategies for the City Centre Area Plan update and the Official Community Plan update;*
- *the density bonus cash contributions could change in the City Centre and could be affected by the Council referral to include commercial rezoning applications in the developer voluntary contributions study; and*
- *the $4.00 per buildable square foot is not the maximum density bonus cash contribution a high rise developer could make in the City Centre according the Rollo study.*

These matters will be reviewed in greater detail later this year as part of the City Centre Area Plan implementation strategy.

Staff recommend not waiting until this is done, as clarity is needed now. UDI and others will be involved in the process.

Financial Impact

Between September 1, 2005 and September 27, 2006, the City received approximately $752,516 in developer voluntary contributions from residential rezoning and development permit applications. This amount was received on a case by case basis and works out to be an average of $0.60 per buildable square foot.

It is estimated that approximately $1,000,000 annually could be received in cash contributions for affordable housing from townhouse rezoning applications in all of the City (excluding the West Cambie area) through the density bonusing option (based on the proposed $2.00 per buildable square foot).

It is estimated another $500,000 could be received annually in cash contributions for child care from townhouse, apartment and mixed use rezoning applications involving a residential component in the City Centre and Steveston areas. This amount is based on an average historical developer voluntary contribution of $0.60 per buildable square foot and is not tied to the proposed new draft density bonus zones at this point in time.

Conclusion

Over the past year, City staff and consultants have done considerable work to respond to requests from Planning Committee and Council for a report on developer voluntary contributions.

The outcome of this work has evolved as new information has become available and input from others has been received.

There are two options that staff are presenting for Council to consider:

1. *continuing the existing historical process of receiving developer voluntary contributions on a case by case basis primarily without the benefit of a guideline or a density bonus bylaw; and*
2. *endorsing the draft new residential density bonus zones (Shelf Ready Strategy) as recommended in the staff report on the Richmond Affordable Housing Strategy.*

After careful analysis of these two options, staff recommend endorsement of the draft new residential density bonus zones.

In preparing this report, staff have answered Planning Committee's concerns about:

- *how the developer voluntary contributions are linked to specific affordable housing targets; and*
- *when and why the developer voluntary contributions will be reviewed.*

This report is being presented at the same time as the *Richmond Affordable Housing Strategy* because the two studies are related to one another.

It is believed that Planning Committee and Council are now in a position to make a final decision and bring to a conclusion the work on the developer voluntary contributions as it specifically relates to affordable housing.

H. Burke

Holger Burke, MCIP
Development Coordinator

HB:cas

Historical Summary

G.P. Rollo & Associates Ltd.:

In order to assist with the request from Planning Committee and Council for a staff report on developer voluntary contributions, staff hired G.P. Rollo & Associates Ltd.

Mr. Rollo is a local land economist who has helped the City numerous times in reviewing the pro forma of different developers.

Pro Forma Analysis:

A pro forma analysis examines the economics of a project, considering such variables as land and construction costs, development or soft costs, financing and profit requirements.

Mr. Rollo was given 10 case studies on which to do a pro forma analysis involving projects that were already completed, currently being constructed or still in the proposal stage.

These case studies were taken from the West Cambie (Alexandra Neighbourhood), City Centre and West Richmond.

Staff gave Mr. Rollo all of the City's development or soft costs associated with each project and used the new Development Cost Charge (DCC) rates that will be applicable July 1, 2007 to ensure that developers would be given the benefit of this future new charge.

"Land Lift" Approach:

In doing the pro forma analysis, Mr. Rollo calculated the "land lift" in rezoning each of the 10 case studies (i.e., the increase in the land value created from the rezoning after factoring in all of the other variables).

The fundamental principle of his work was that the "land lift" could be shared between the developer and the City (e.g., 50% of the "land lift" could be the developer voluntary contribution and 50% the developer profit).

It should be noted that the "land lift" approach is different than the "cost recovery" approach, which calculates the cost of all the amenities and then apportions that cost to the development community (e.g., on a buildable square foot basis).

Utilizing this approach, G.P. Rollo & Associates Ltd. determined the ability of a developer to make a voluntary contribution at the time of rezoning.

Key Conclusions of the Rollo Study:

West Cambie Developer Voluntary Contributions:

> *These amounts are not appropriate for the rest of the City because they are based on the specific costs of building a certain amount of affordable housing, a child care facility and city beautification works in the Alexandra Neighbourhood.*

"Land Lift":

> *The "land lift" approach (i.e., the increase in the value of the land from rezoning the property) is preferred to the "cost recovery" approach (i.e., costing out all the amenities and apportioning the cost to each development property) because it takes into account*

the economics of a project and reflects the benefit derived from increasing the development potential of a site through the rezoning process.

Single-Family Residential:

That a "flat rate" of $0.60 per buildable square foot be considered for single-family residential rezoning applications.

Townhouses (Less Than 20 Units):

That a "flat rate" of $2.00 per buildable square foot be considered for small townhouse rezoning applications.

Townhouses (20 Units Or More):

That a pro forma analysis calculating the "land lift" be used to evaluate developer voluntary contributions from medium to larger townhouse rezoning applications.

It is likely that the pro forma analysis would result in a developer voluntary contribution in the range of $2.00 - $4.00 per buildable square foot.

Low Rise Apartments:

That a pro forma analysis calculating the "land lift" be used to evaluate developer voluntary contributions.

His analysis indicated that low rise apartments should be able to make a developer voluntary contribution in the order of $3.00 - $4.00 per buildable square foot.

High Rise Apartments:

That a pro forma analysis calculating the "land lift" be used to evaluate developer voluntary contributions.

Generally speaking, larger projects are able to offer a greater developer voluntary contribution than smaller developments.

His analysis indicated that high rise apartments should be able to make the West Cambie's developer voluntary contribution of $6.37 per buildable square foot.

Commercial:

Further study is required to evaluate developer voluntary contributions from commercial rezoning applications.

Targets/Costs:

It should be noted that in arriving at his figures, neither Mr. Rollo nor City staff linked developer voluntary contributions to any specific affordable housing, child care or other amenity targets.

Furthermore, there was no attempt to link the developer voluntary contributions to the cost of any amenities (e.g., unlike the West Cambie – Alexandra Neighbourhood where the "cost recovery" approach was used and the entire cost of the amenities is born by the developers).

Instead, the "land lift" simply indicates the developer's ability to make a voluntary contribution (and Council can decide to which amenities it wishes to allocate the contribution).

SUMMARY OF G.P. ROLLO & ASSOCIATES LTD. STUDY ENTITLED "AMENITY CONTRIBUTIONS FROM NEW DEVELOPMENT"		
Type of Development	**Pro Forma Analysis Results Based on 50% of the "Land Lift" (per buildable sq ft)**	**Rollo Recommendation Developer Voluntary Contribution (per buildable sq ft)**
Single-family residential: - Case Study 1 - Case Study 2	 $0.75 $0.00 (due to applicant's delay)	$0.60
Average (not including $0.00)	$0.75	
Townhouse development: - Case Study 3 - Case Study 4	 $2.42 0.00 (due to front end costs)	$2.00 if less than 20 units Pro Forma if 20 units or more
Average (not including $0.00)	$2.42	
Low rise apartment: - Case Study 5 - Case Study 6	 $3.15 $4.27	Pro Forma Calculating "Land Lift"
Average	$3.71	
High rise development: - Case Study 7 - Case Study 8	 $5.71 $7.56	Pro Forma Calculating "Land Lift"
Average	$6.63	
Commercial development: - Case Study 9 - Case Study 10	 $0.00 $0.00	Further Analysis Required
Average	N/A	

Previous Staff Recommendations:

It should also be noted that when the Rollo study was presented to Planning Committee and Council, staff recommended a minimum developer voluntary contribution of $2.00 per buildable square foot.

All of this amount was recommended to go towards affordable housing because of its high profile and because the cost of building affordable housing units was deemed to be more than other amenities such as child care.

Where a pro forma calculating the "land lift" was undertaken and the voluntary contribution was more than $2.60 per buildable square foot, staff recommended that $0.60 be used for child care.

Previous Planning Committee Consideration:

Planning Committee and Council received the staff report and Rollo study in November 2006.

Both items were referred to the Urban Development Institute (UDI), Greater Vancouver Home Builders Association (GVHBA) and local small developers for input.

Planning Committee and Council also directed staff to investigate further the potential for developer voluntary contributions from commercial rezoning applications. This work will occur as part of the City Centre Area Plan implementation strategy.

The response from UDI, GVHBA and local small developers to Mr. Rollo's recommendations was reported to Planning Committee on January 16, 2007.

Basically, the development community did not like the proposed pro forma - "land lift" approach to developer voluntary contributions.

On January 16, 2007 staff recommended to Planning Committee that different developer voluntary contributions be considered for the various types of development and areas of the City.

Specifically, based on Mr. Rollo's work, the following developer voluntary contributions were proposed for affordable housing or child care and were recommended to be approved as a "City-Wide Interim Voluntary Amenity Contribution Guideline".

CITY STAFF PROPOSED DEVELOPER VOLUNTARY CONTRIBUTIONS AS A "CITY-WIDE INTERIM VOLUNTARY AMENITY CONTRIBUTION GUIDELINE"		
Type of Development	**Rollo Pro Forma Analysis (Average per buildable sq ft)**	**City Staff Recommendation (per buildable sq ft)**
Single-Family Rezoning	$0.75	$0.60
Townhouse Rezoning	$2.42	$2.00 regardless number of units except Steveston & City Centre $2.60 regardless number of units in Steveston & City Centre
Apartment Rezoning	$3.71 (Low Rise) $6.63 (High Rise)	$4.00 if no affordable housing $0.60 if no child care
Commercial Rezoning	Further study required	Further analysis pending

Although the Planning Committee supported the above-noted approach, concerns were expressed by some members that there should be:

- *a better connection between developer voluntary contributions and the targets for affordable housing; and*
- *clarity on when and why the developer voluntary contributions would be reviewed.*

At the January 16, 2007 Planning Committee meeting, UDI expressed similar concerns that the proposed developer voluntary contributions were not linked to affordable housing targets and asked for more time for consultation with its members.

It should also be noted that UDI had in the past questioned some of Mr. Rollo's assumptions (e.g., the 12% profit margin for multiple-family residential developments and the 10% equity financing for construction).

In light of the Committee's concerns, staff withdrew the proposed developer voluntary contributions report from the January 22, 2007 Council agenda in order undertake some further review and consultation.

<u>Density Bonusing Option</u>:

It is now proposed to include the proposed developer voluntary contributions into the density bonusing option.

Specifically,

- *\$2.00 per buildable square foot is included in the "shelf ready" Townhouse District (R2/0.6D) zone; and*
- *\$4.00 per buildable square foot is included in the "shelf ready" High-Density Residential District (R4D) zone.*

West Cambie Area Plan (Alexandra Neighbourhood):

It should be noted that the West Cambie Area Plan has its own affordable housing policies, density bonusing provisions and guidelines.

Therefore, it was never intended that the work done by G.P. Rollo & Associates Ltd. or the proposed "City-Wide Interim Voluntary Amenity Contribution Guideline" would apply to this neighbourhood.

The effectiveness of the approach being taken in the West Cambie Area Plan will be reviewed and updated as specific rezoning applications are processed in the Alexandra Neighbourhood.

Richmond Affordable Housing Strategy

Recommendations:

Single Family Residential Rezoning Applications:

- *would be encouraged to build a legal secondary suite or a coach house above the garage on all single rezoned lots and on at least 50% of any lots created through rezoning/subdivision applications (50% provides flexibility and affordable units);*
- *the secondary suites and coach houses above the garage would be secured as affordable low end market rental housing units by means of registration of a housing agreement against title;*
- *it is projected that approximately 75 affordable low end market rental housing units (secondary suites and/or coach houses) could be created annually through the rezoning application process; and*
- *in rare cases where a neighbourhood does not want a legal secondary suite or coach house above the garage, Council could consider allowing rezoning to the existing zoning and accept a voluntary cash contribution to affordable housing.*

Townhouse Rezoning Applications:

- *would be required to offer a cash contribution of $2.00 per buildable square foot in lieu of building affordable housing in return for the density bonus regardless of the number of townhouses;*
- *this being the case, based on the two previous years experience, it is estimated that approximately $1,000,000 in developer voluntary contributions could be received by the City annually;*
- *this $1,000,000 would go primarily to affordable subsidized rental housing because this represents the greatest need in Richmond;*
- *it must be noted that affordable subsidized rental housing can only be achieved with City funding and significant, on-going financial assistance from senior governments and other sources; and*
- *for the City to achieve this amount of financial assistance will require new levels of senior government involvement and initiative (which the City and GVRD have been encouraging).*

Apartment and Mixed Use Rezoning Applications:

- *it is proposed that apartment and mixed use rezoning applications involving more than 80 residential units be required to provide a minimum of 5% of their building area (minimum of 4 residential units) for affordable low end market rental housing in return for the density bonus;*
- *it is projected that approximately 20 affordable low end market rental housing units could be created annually through the apartment and mixed use rezoning application process;*

- *the developer, or a group of developers, could concentrate the affordable low end market rental housing units together in one building or site rather than having them scattered in a number of different buildings or sites;*
- *in the few cases where an apartment and mixed use rezoning application involves less than 80 residential units, a cash contribution of $4.00 per buildable square foot would be required in lieu of building affordable housing units in return for the density bonus;*
- *the City would prefer to have affordable low end market rental units built now rather than receive developer voluntary contributions which may result in affordable subsidized rental housing being built in the future; and*
- *the City does not want to accumulate a large amount of money in the Affordable Housing Reserve Fund.*

ANNUAL AFFORDABLE HOUSING TARGETS			
Type of Affordable Housing	Existing Shortfall	Consultants Targets Accepted By City	How The Consultants Targets Accepted By The City May Be Achieved Through the Density Bonusing Option
Affordable Subsidized Rental Housing: • Council's 1st priority • Households annual income less than $20,000 • 30% income = $500/month maximum • Homeless • People with addictions • Mentally challenged • Single parents who only work part time • Seniors on fixed pensions • Families requiring subsidies • Etc. Note: The City prefers to invest in land or subsidized rental housing buildings, not both in an affordable housing project	A current shortfall of 2,540 total affordable subsidized rental units Based on 2000 CMHC Study using 1996 Census Shortfall is expected to be even greater in 2006 Census	**73 annually affordable subsidized rental units** Existing 6% of subsidized rental housing in Richmond times the total number of units built on average annually over past 10 yrs 6% of 1,215 = 73 units/yr (2.9% of shortfall)	A. $2.00 sq ft cash contribution from townhouse rezonings (not $0.60 sq ft) = approximately $1,000,000 annually • $1,000,000 = 5 affordable subsidized rental units annually (@ $200,000 per unit) B. If 80% equity from senior governments = $4,000,000 annually • Total $5,000,000 = 25 affordable subsidized rental units annually C. If 90% equity from senior governments = $9,000,000 annually • Total $10,000,000 = 50 affordable subsidized rental units annually
Affordable Low End Market Rental Housing: • Council's 2nd priority • Households annual income $20,000 - $37,700 • 30% income = $500 - $943 month • Young adults • Recently retired • Lower income families • Students • Individuals without equity • Etc. Note: 250 new secondary suites annually could be created through the Building Permit process that will not be secured as affordable low end market rental housing	A current shortfall of 1,420 total affordable low end market rental units Based on 2000 CMHC Study using 1996 Census Shortfall is expected to be even greater in 2006 Census	**279 annually affordable low end market rental units** Existing 23% of low end market rental housing in Richmond times the total number of units built on average annually over past 10 yrs 23% of 1,215 = 279 units/yr (19.6% of shortfall)	A. 75 new secondary suites or coach houses created through rezoning applications annually (50% of new houses) B. 20 new apartment units from private development annually (4 units x 5 buildings) • 95 total affordable low end market rental units annually C. **Alternative:** • $0.60 sq ft cash contribution from single family rezonings = approximately $90,000/yr • $4.00 sq ft cash contribution from apartment and mixed use rezonings = approximately $1,500,000/yr • $1,590,000 cash contribution yr = 8 affordable low end market rental units @ $200,000 per unit
Affordable Entry Level Ownership Housing: • Council's 3rd priority • Households annual income $37,700 - $60,000 • 30% of $37,700 income = $140,500 unit* • 30% of $60,000 income = $232,000 unit* • * assumes 10% down payment, 5.2% interest rate and 25 year mortgage • Families or adults wanting to get into the housing market • Etc.	A current shortfall of 2,415 total affordable entry level ownership units Based on 2000 CMHC Study using 1996 Census Assumes 60% of total shortfall of 4,025 renter households with incomes over $50,000 would buy a home	**243 annually affordable entry level ownership units** Assuming 20% of the total number of units built on average annually over past 10 yrs 20% of 1,215 = 243 units/yr (10% of shortfall)	• If 15% of the apartments and mixed use rezonings build small units (e.g., one bedroom with maximum size of 645 sq ft) = • 60 small entry level ownership units (5 buildings x 80 units each x 15% = 60) • Typically built by development community now on their own initiative • City would support 15% of units being one bedroom units less than 645 sq ft but will not secure these small units as affordable entry level ownership because the priority of the Affordable Housing Strategy is affordable subsidized rental housing and affordable low end market rental housing • Entry level ownership is not to be provided at the expense of developer contributions to affordable subsidized rental housing or the construction of affordable low end market rental units

DEVELOPERS' & OTHERS' CONTRIBUTION TO AFFORDABLE HOUSING ANNUALLY			
Type of Affordable Housing	**Consultants Annual Targets Accepted By City**	**Developers' Contribution to Annual Targets**	**Others' Contribution (Federal/Provincial/City) to Annual Targets TBD**
Affordable Subsidized Rental Housing **(Council's 1st Priority)** Existing Total Shortfall = 2,540 units	73 units/year	$1,000,000 in cash contributions	$4,000,000 if 80% equity $9,000,00 if 90% equity
		= 5 units/year if 0% equity from others	68 units/year (93% of annual target)
		= 25 units/year if 80% equity from others	48 units/year (66% of annual target)
		= 50 units/year if 90% equity from others	23 units/year (33% of annual target)
Affordable Low End Market Rental Housing **(Council's 2nd Priority)** Existing Total Shortfall = 1,420 units	279 units/year	75 from single-family + 20 from multiple-family = 95 units/year	184 units/year (66% of annual target)
Note: It is anticipated that there will be 250 new secondary suites each year that will not be secured as affordable low end market rental housing because they will be built without requiring a rezoning application			
Entry Level Ownership Housing **(Council's 3rd Priority)** Existing Total Shortfall = 2,415 units	243 units/year	60 from multiple-family (Small Units Not Necessarily Affordable)	183 units/year (75% of annual target)
Summary: Existing Total Shortfall All Affordable Housing Types = 6,375 units	**595 units/year Consultants Total Targets**	**120 units/year (20%) Affordable Housing Only**	**475 units/year (80% of annual target)**