City of Kelowna
Committee-of-the-Whole Meeting
AGENDA

June 19, 2023
8:00 am
Council Chamber
City Hall, 1435 Water Street

Pages

1. Call to Order

2. Urban Development Institute Presentation to Council 2 - 42

To receive, for information, UDI's Working Together to Build Our Community presentation

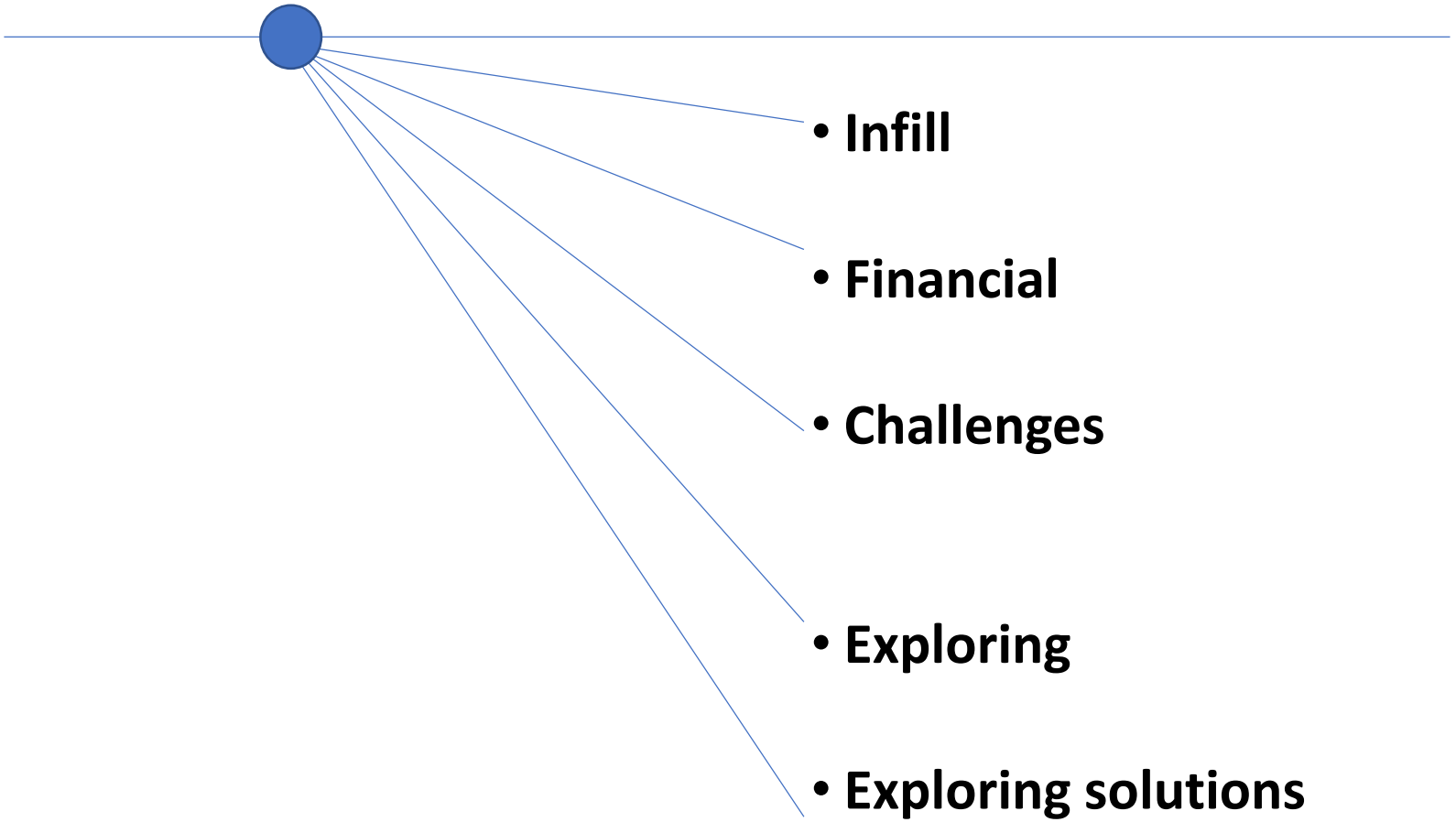
3. Termination

Working Together To Build Our Community

June 19, 2023

UDI Presentation to Kelowna Council

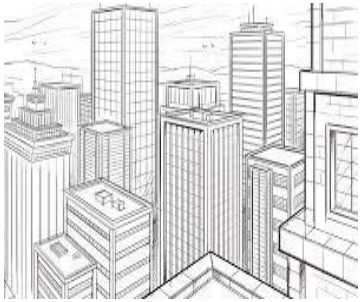
Overview



- **Infill**
- **Financial**
- **Challenges**
- **Exploring**
- **Exploring solutions**

Challenges we face together

- Housing crisis
- Inflation / supply chain
- Climate emissions reduction
- Infrastructure



- Demographic change
- Politics of change
- Fragments of ideological best practices

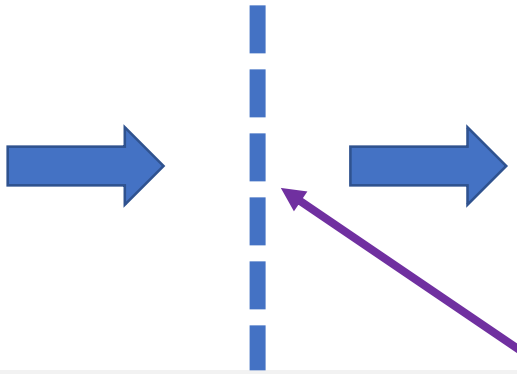
The views of development

- **Building the great city and community**
  - “We want….”
  - Today…or tomorrow

- **Business of producing something**
  - Costs
  - Revenues
  - Margin
  - Growth / staying in business
  - “Today”

The city and community building partnership

- **Private sector builds in market context**
  - Takes the risk and reward

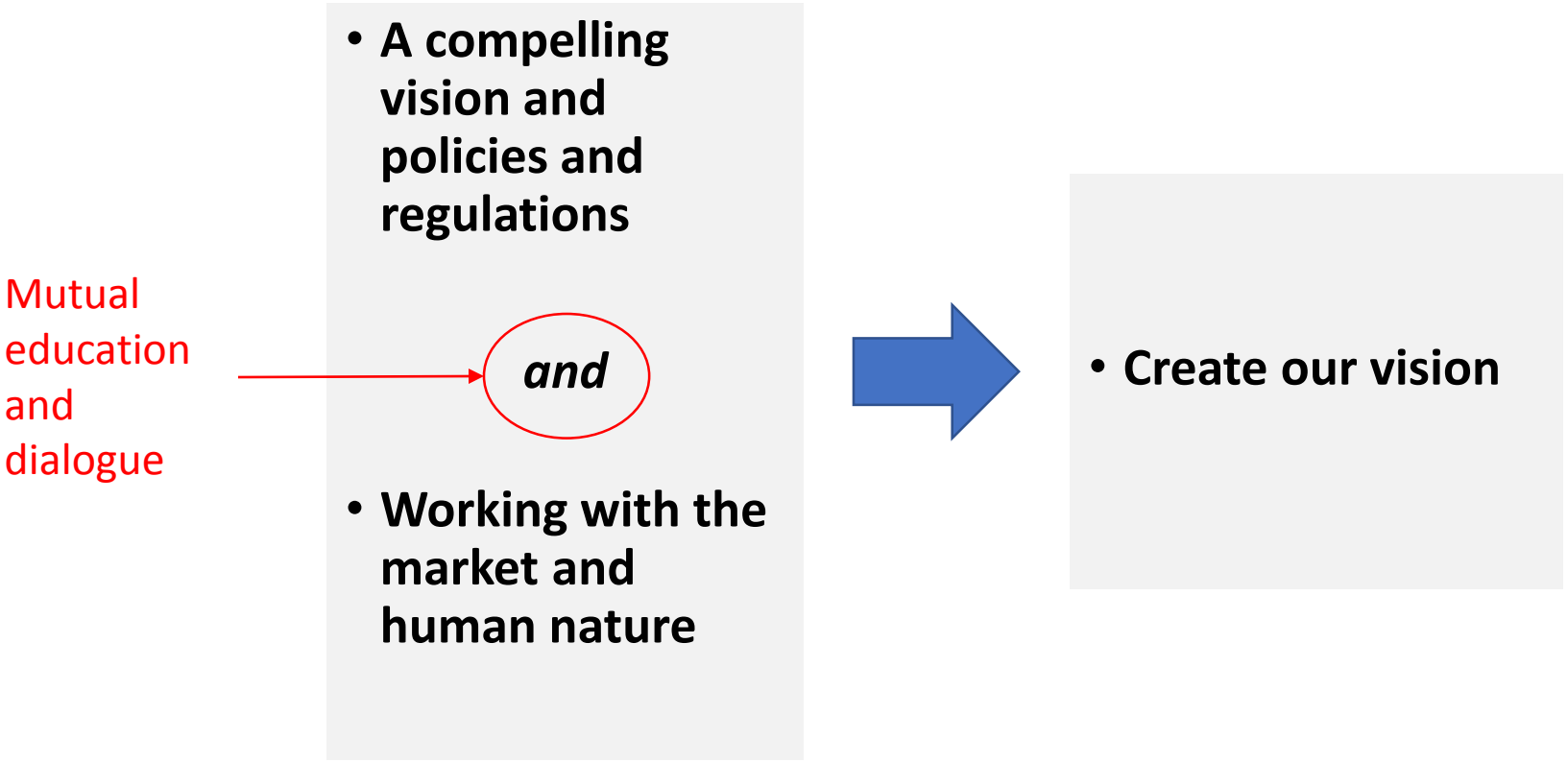


- **Vision of our great community**

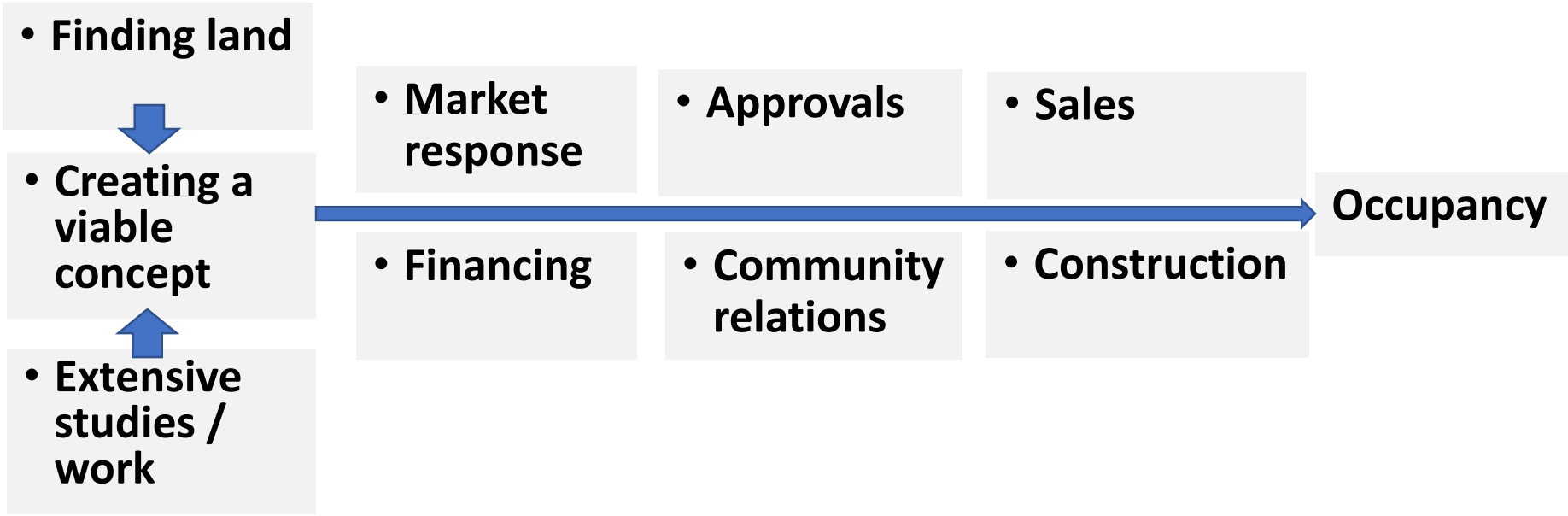
- **Local government policies / regulations control and fees**

The art of guidance: to shape without negative consequences = a relationship with community wellbeing at stake.

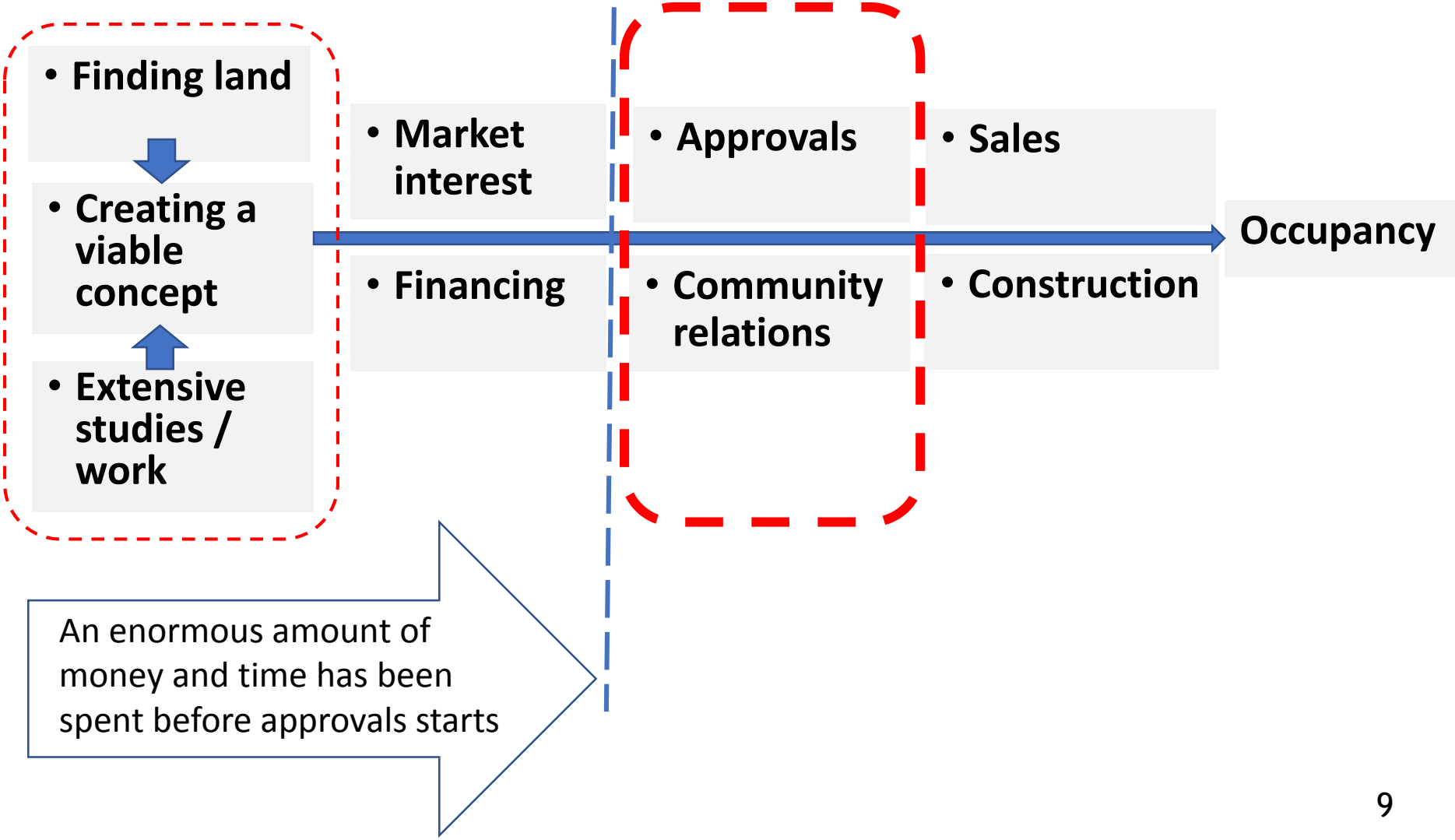
The win/win partnership



The real estate development process



The real estate development process
The municipal role

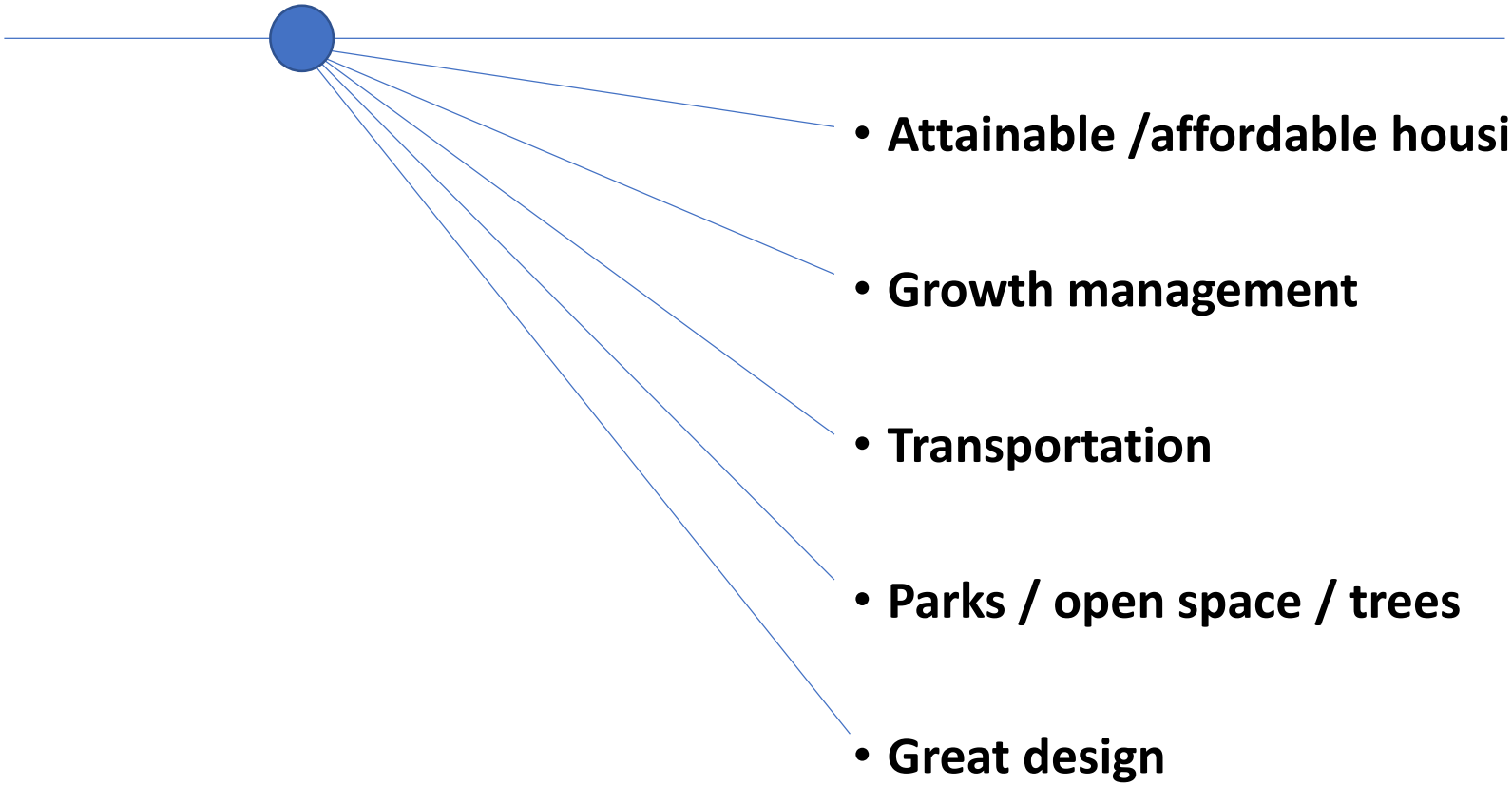


	Team management	Community relations	Studies to be done	Land management	Concept development and refinement	Financial modeling and financing management	Market engagement	Planning and design	Approvals issues	Construction considerations
1) Pre-development concept										
2) Securing land										
3) Financing and development strategy										
4) Refinement of concept feasibility										
5) Financing										
6) Planning and approvals										
7) Marketing and sales										
8) Construction										
9) Post construction										

Development Managers Matrix:

Many activities undertaken at each step

Public policy goals



- **Attainable /affordable housing**
- **Growth management**
- **Transportation**
- **Parks / open space / trees**
- **Great design**

Attainable / affordable housing

- **The relationship between the cost of housing and incomes.**

- **What is “affordable”?**
  - 1/3 of income = housing
    - or
  - Enough $ left over after housing costs to comfortably meet your needs.

The Financial Proforma for Housing

- **Revenue**
  - # of units x price

Minus

- **Costs**
  - Land costs
  - Approvals costs
  - Soft costs
  - Hard costs
  - Municipal fees
  - Financing costs

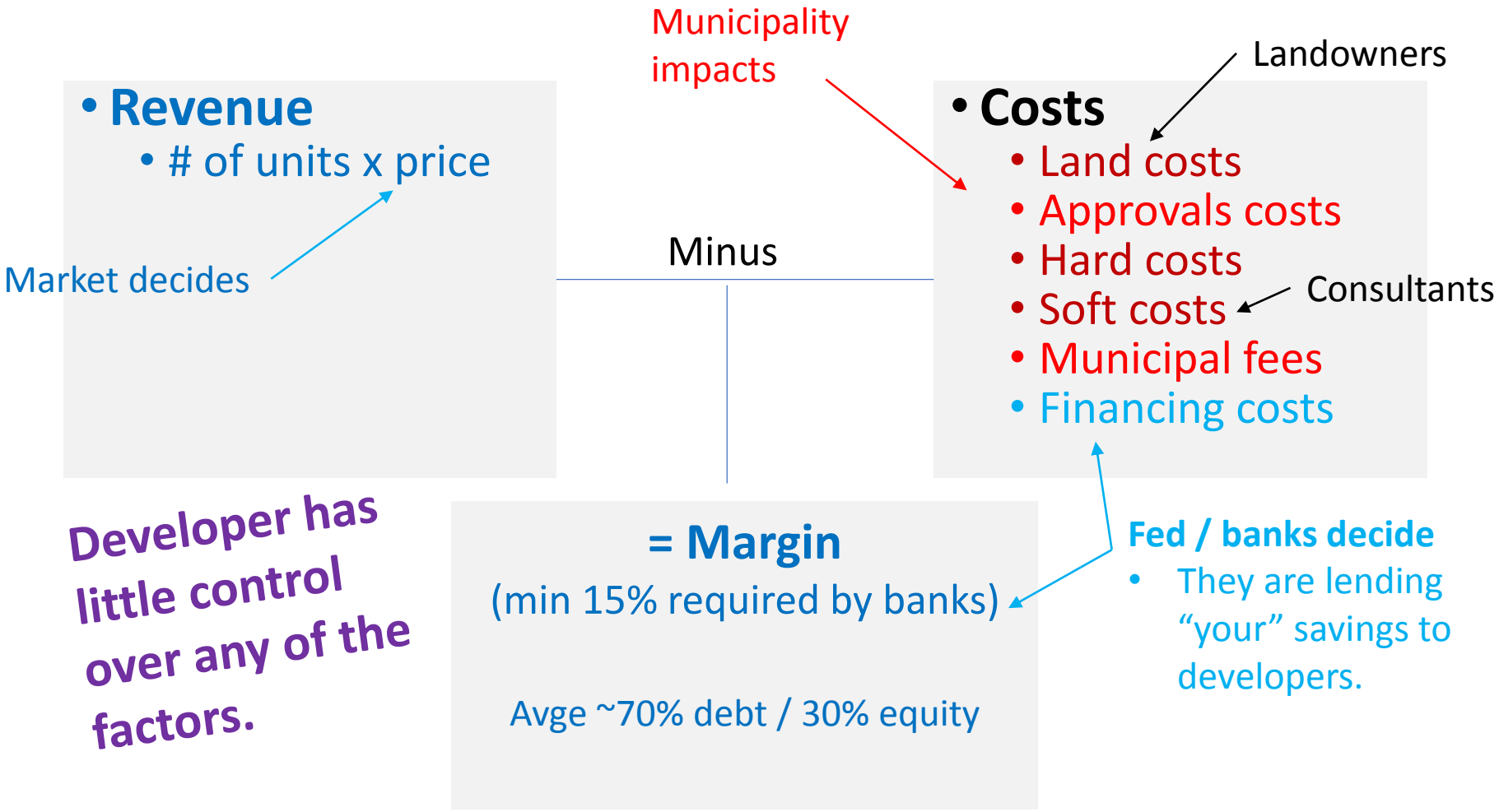
= Margin

(min 15% required by banks)

70% debt / 30% equity

= Calculate feasibility

The Financial Proforma for Housing



Supply and demand and housing affordability

- **Supply and Demand sets the prices of all market goods**.

- **Cost of materials / consultants / money is** similar everywhere (= large / global markets)
  - Cost of land is highly variable

- **Cost of land** = highly variable based on demand / availability / market trends.
  - A key factor in cost of housing

Supply

Supply and demand and housing affordability

Demand

- **Housing for a home**
- **Housing as an investment**

- **Growth of population**
- **Demographic change altering types of housing needed**
  - **(eg seniors)**

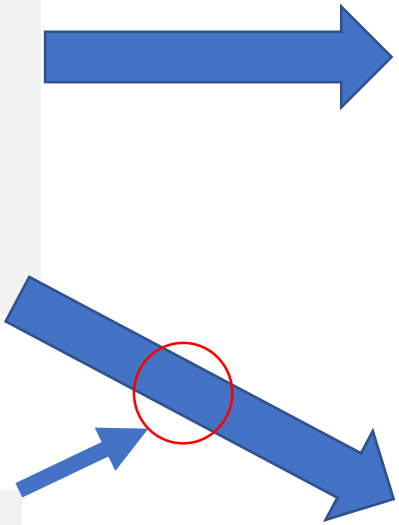
- **Perceived return on investment**
  - **Price versus cost**

<u>Low interest rates + a housing supply crisis</u> attracts money from other areas (stocks) to housing = drives up demand far faster than supply.

= Hurts "home-buyers" and developers (competing for land).

Affordable “new buildings?”

- **New market buildings today are the most expensive buildings humans have ever built** (the highest standards)



- **Long term affordability**
  - **= older buildings**
  - **= build many new buildings today for long term affordability**
  - **(filtering / vacancy chain)**

- **Significant subsidies required**
  - Funding (Fed/Prov)
  - Bonus density
  - Non-profit developer

- **Affordability / attainability in the short term**

Cost of ‘buildable’ land per unit

- **Costs we cannot control**
  - Materials
  - Labour
  - Financing interest

- **Costs a municipality controls or has influence over**
  - DCCs / amenities / fees
  - Policy-driven costs (eg: heritage)
  - Approvals delays (holding costs)
  - Price of land/density based on supply in plans/policies

- **Housing attainability threshold**
  - **$50,000 for land / unit**

Key factor: ratio of land cost / unit (density)

Attainability threshold for planning

(greenfield or infill) = $50,000 land / unit

800 sqft 2 bed unit – example

- Hard, soft and financing costs (for wood bldg with surface pkg)
  - ($360 sqft)
    - =$288,000
- Land cost
    - **= $50,000**
- Min profit (15%)
    - $50,700
- Min sales price
    - **$338,000**

Purchaser reality

- $338,000
- Downpayment 10%
  - $34,000
- Mortgage
  - $304,000
- Monthly payment (@~5%)
  - ~$1,800/mo
  - ~21,000/yr

Avge household income = ~$85,000/yr

=26% of pretax income for mortgage

30% is affordability threshold

Infill planning implications

- **Land price / $50,000** = min # units required in building on any piece of land to be affordable.

- **Single family lot for infill**
  - $800,000
  - = 16 units
    - 12,800 sqft + 15% common area = 14,720 sqft
  - ~10,000 sqft lot (66x150)
  - 40% site coverage = 4,000 sqft

= 4 storey apt building

Attainability at $150,000 land/unit

800 sqft 2 bed unit – example

- Hard, soft and financing costs (for wood bldg with surface pkg)
  - ($360 sqft)
    - =$288,000
- Land cost
    - = **$150,000**
- Min profit (15%)
    - $65,700
- Min sales price
    - **$503,700**

Purchaser reality

- $503,700
- Downpayment 10%
  - $51,000
- Mortgage
  - $452,700
- Monthly payment (@~5%)
  - ~2,880/mo
  - ~34,560/yr (after tax income)

Avge household income = ~$85,000/yr

=41% of pretax income for mortgage

30% is affordability threshold

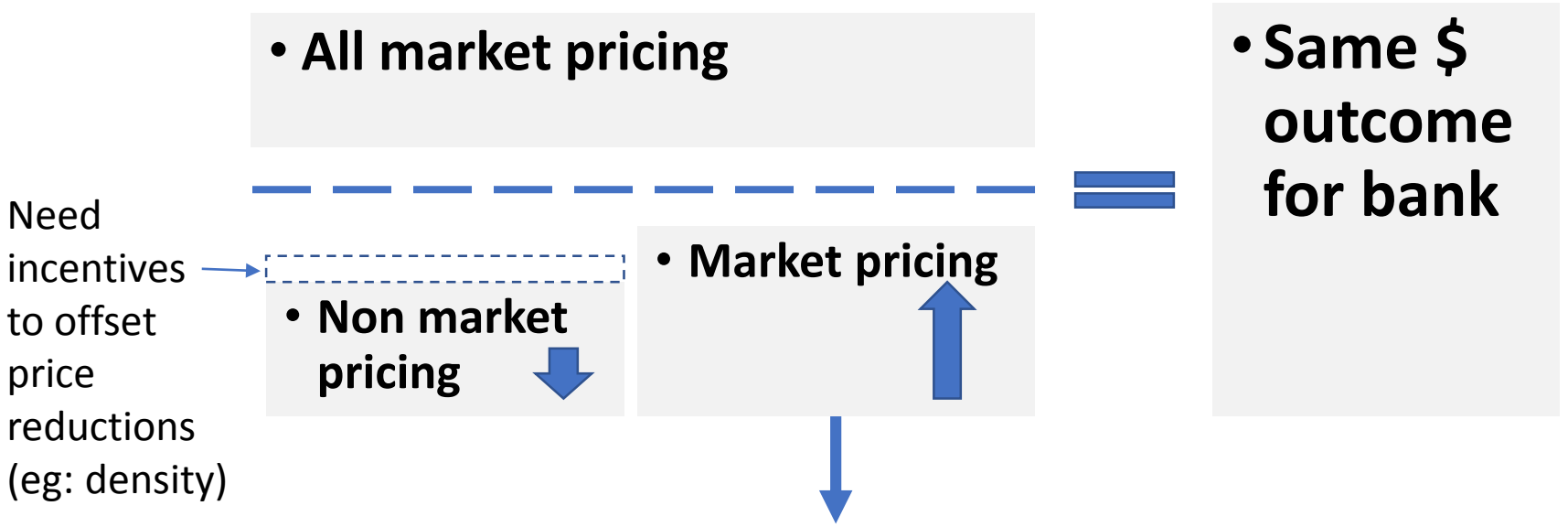
Infill planning implications

- **Land price = $150,000 / unit**

- **Single family lot for infill**
  - $800,000
  - = 5-6 units on one lot
  - 10,000 sqft lot (66x150)
  - 40% site coverage = 4,000 sqft

= Houseplex / townhouse

Inclusionary zoning policies?



- **Unintended consequences (w/o incentives)**

1. BC Assessment raises the values of all units in the neighbourhood to reflect new (inflated) market prices.
2. Leads to higher overall housing costs everywhere long term.
3. Next inclusionary project price baseline is higher = less affordable.

Municipal solutions to housing affordability?

- **Efficient approvals processes.**
- **As much housing of any type constructed as possible**
  - **= long term affordability**
- **Suites / ADUs / houseplexes everywhere outright**
  - **And…**
- **Little/no need to compete to get land.**

"Growth management"

Growth management

- **The power of growth**
  - Provides new housing (all types)
  - Brings community benefits
  - Allows balancing of land uses (creating complete neighbourhoods)
  - Increases density / diversity
  - Increases transit viability
  - Others

Where to grow

- **Infill in existing neighbourhoods**
  - **Focus on core high density**
  - **Spread out across all neighbourhoods**
- **Greenfield / new areas**
  - **Single use sprawl**
  - **Mixed use areas to "complete" adjacent areas / regional patterns**

Key factors:

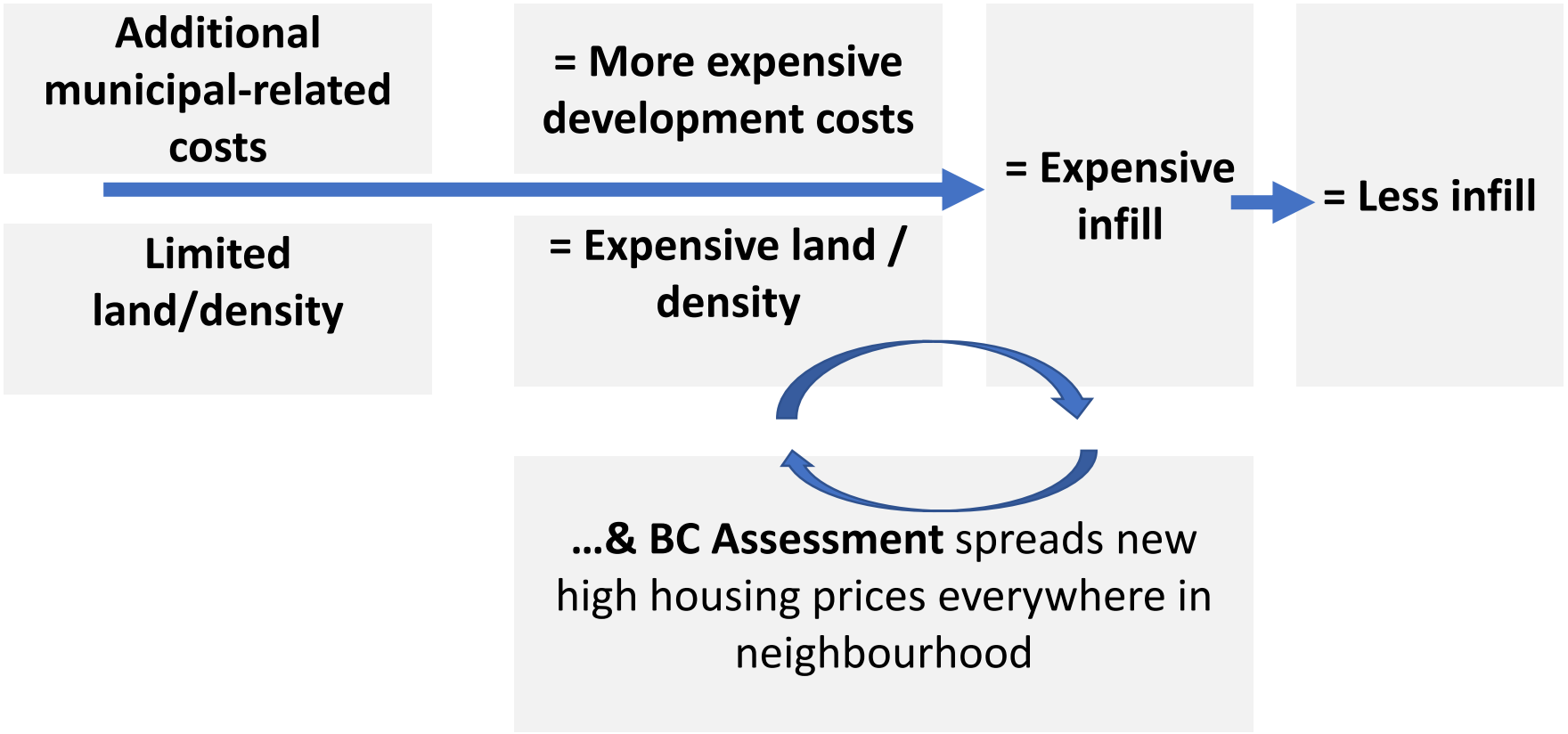
- **Neighbourhood completeness**
- **Transit corridor support**
- **Cost of housing types**
- **Housing diversity**
- **Diversity of owners/builders**

Infill capacity

Conditions that take land out of play for infill

Contamination or other issues Expensive clean up or response	**Location** The location is wrong – in the eyes of the market or the banks = too much equity required	**Existing buildings are too young (expensive)** ~40 yrs old (early 80s) or younger	**Existing businesses are successful** Old bldgs with profitable businesses are expensive /NFS
Size The size does not support feasible building and parking layouts Land assembly is too difficult or expensive	**The city plans do not support feasible density** Staff and/or Council will not support it	**The politics of the neighbourhood are too risky to rezone** Expensive holding, consultation and exactions	**The #1 reason:** It's not for sale – for any feasible price.

Infill and policy

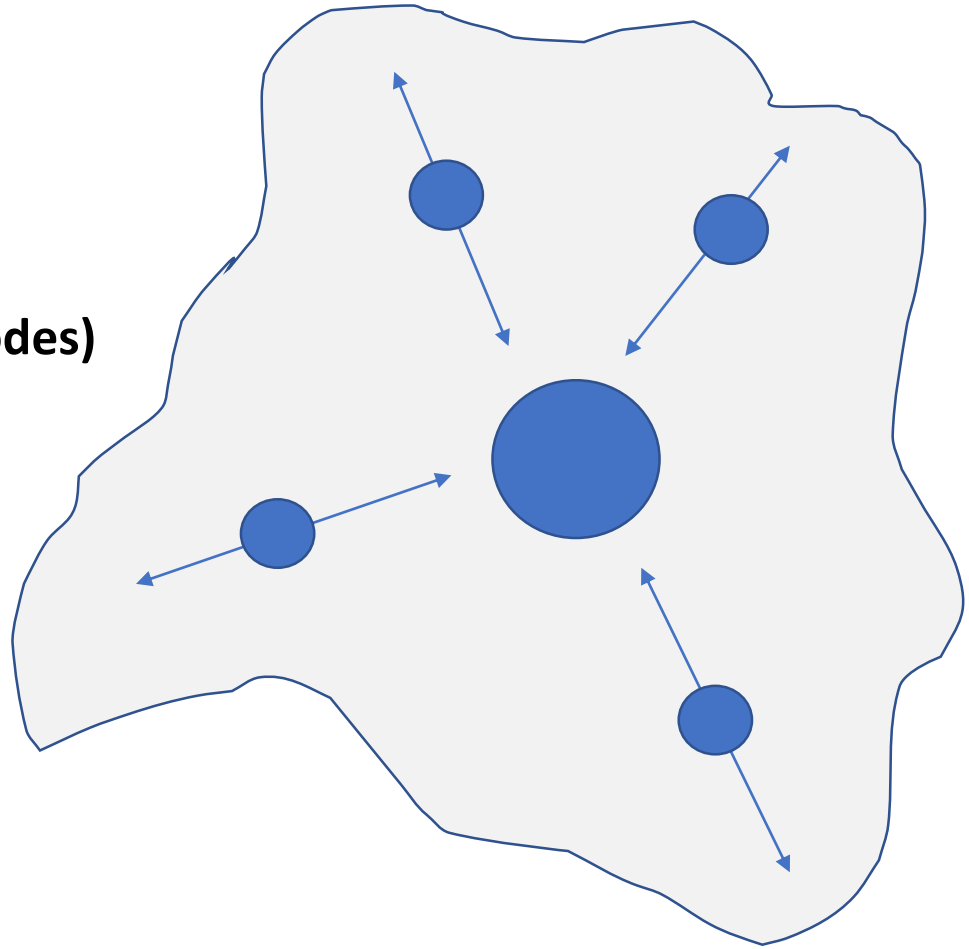


The geometry of growth

- **Past assumptions**
  - **Central business district**
  - **Single use, low density suburbs**
  - **Occasional secondary shopping areas**
  - **Commuting (car or alt modes)**

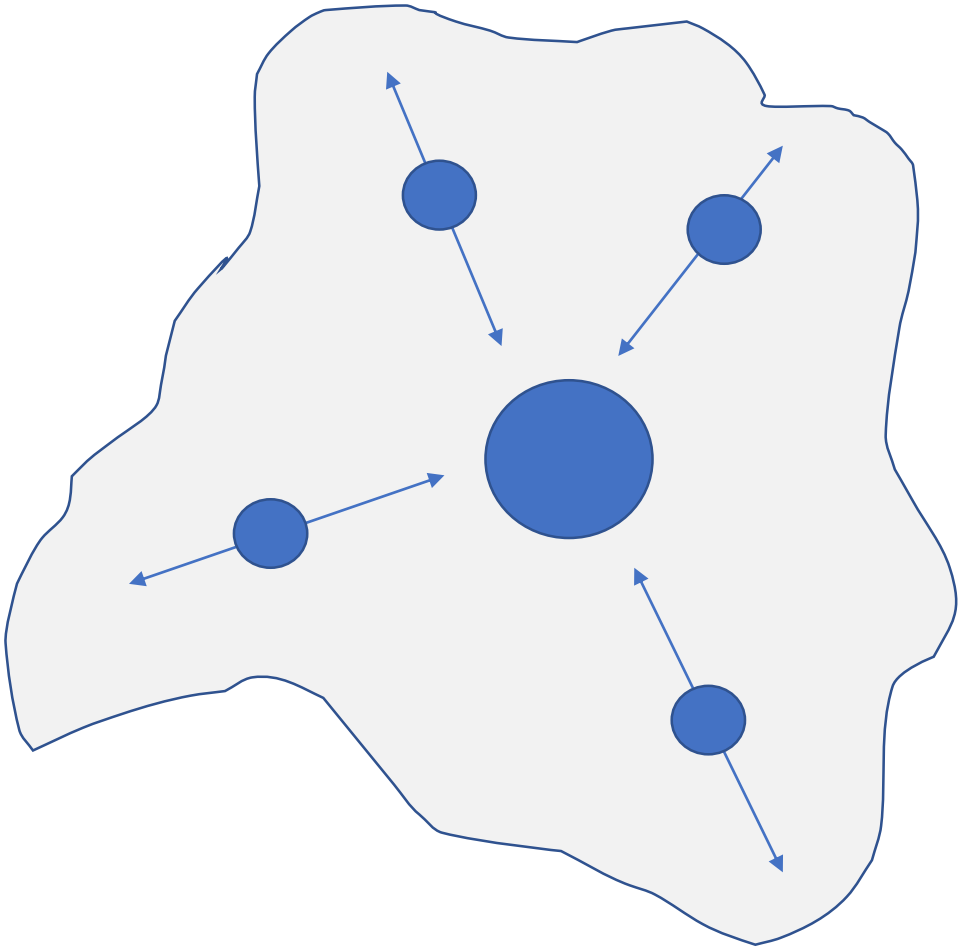
  - **= Pre:**
    - **Phone**
    - **Cell-phone**
    - **Internet**
    - **COVID**
    - **AI**

    - **…but enforced in city plans**



The geometry of growth

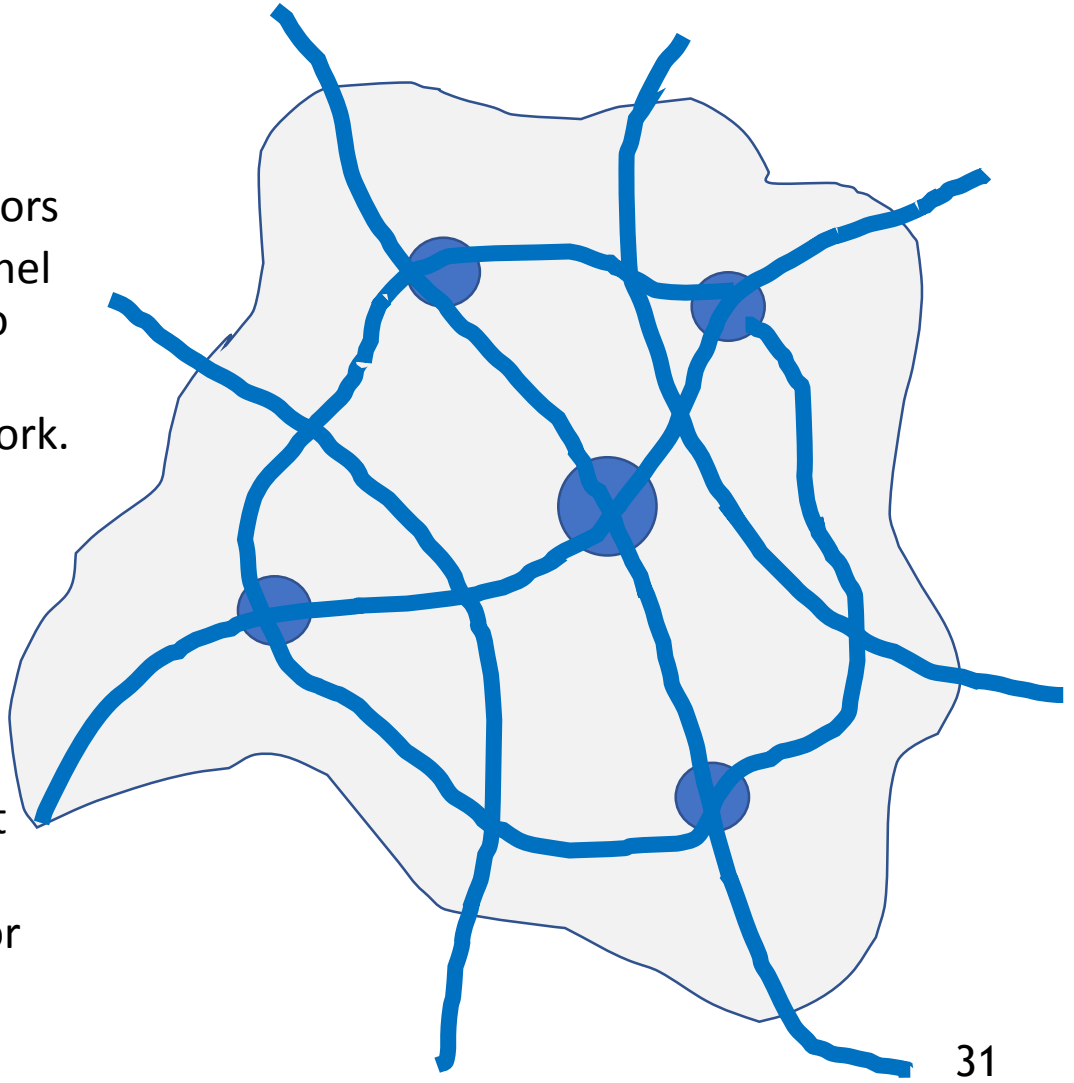
- **What did we get?**
  - **Sprawl**
  - **Traffic**
  - **Expensive infrastructure**
  - **Climate and air emissions**
  - **Etc…**
- **Smartgrowth?**
  - **Take transit!**
  - **Live in small urban apt**
  - **Land/house prices skyrocket**
  - **…failed because of geometry**



Sustainable corridor urbanism (OCP)

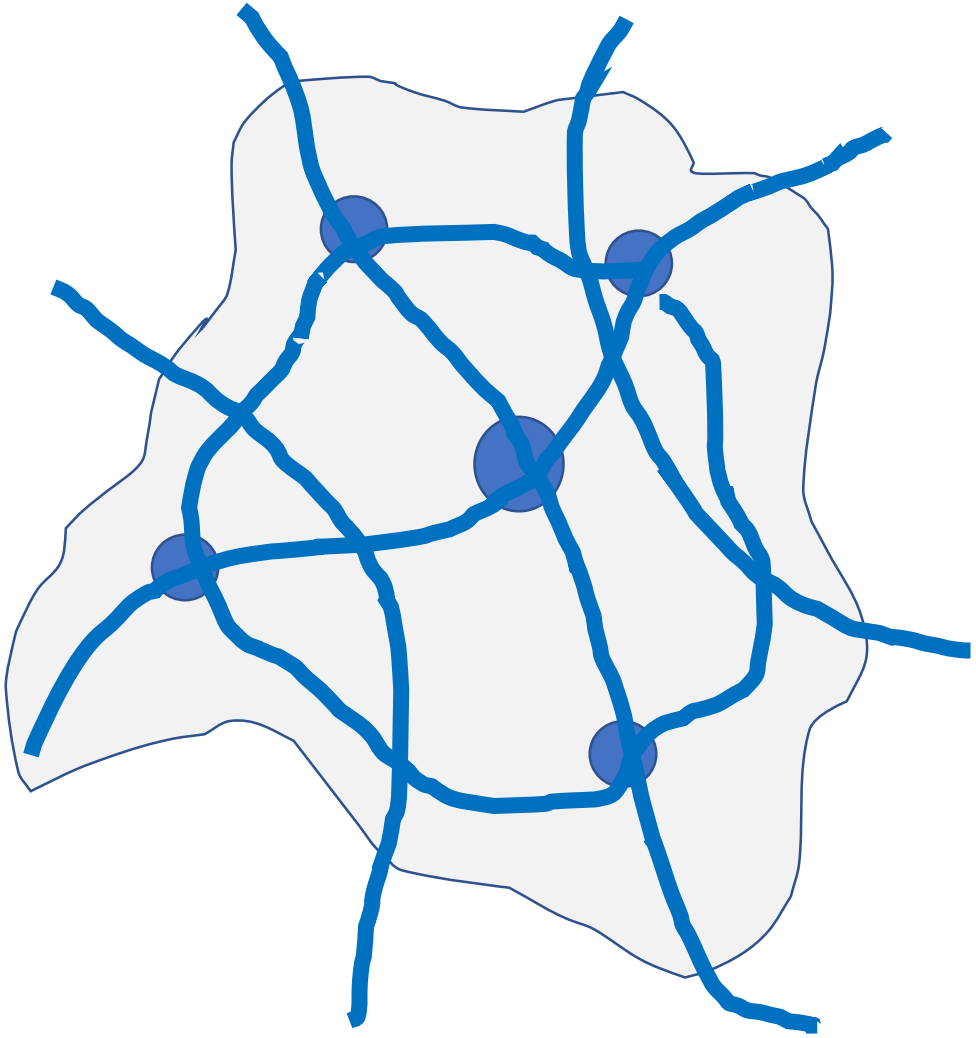
- **Rethink geometry to "corridors"**
  - Mixed use, mixed density corridors
  - End focus on downtown – channel growth / commercial / etc… into neighbourhoods.
  - Link along efficient transit network.

- **What you get?**
  - High transit and active transportation share
  - Diversity of housing (SF – MF)
  - Lower land/housing prices (a lot more land is available)
  - Long term clear city structure for infrastructure investment



Growth management principles

1. **Focus on corridors (not patches)** – change the geometry of growth.
2. **Refocus growth on " (all) neighbourhoods" versus "downtown" or a few areas.**
   - *"The rise of the neighbourhood"*
   - Put new growth into all areas
3. **Have many decades of land capacity in your OCP.**
   - Greenfield is OK if you are creating / complete new/ existing neighbourhoods.
4. **Upzone significant amounts of land to match OCP.**
   - Back up goals with political will (in face of neighbourhood opposition)



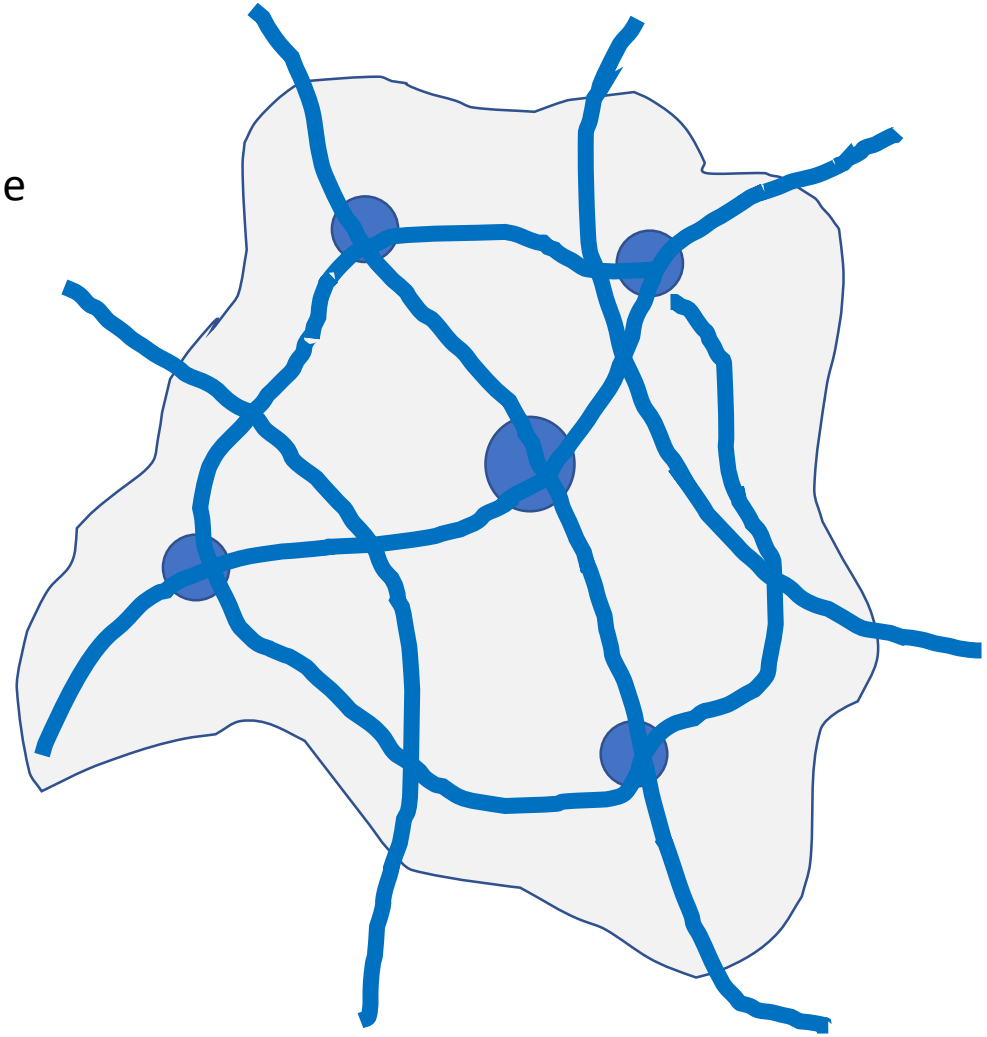
Growth management principles

5. Promote all types of housing

- Not just SF or MF
- Do not assume concrete towers are the final housing solution = the most expensive form of housing.

6. Work with regional reality

- “The edge of your OCP is not the real edge” - People will live within a 45 minute commute. The edge may actcually be a new centre.



Transportation

- **Two dimensions of a city**

- **The "regional city"**
  - **Major regional destinations and uses**
    - Industry
    - Education
    - Shopping
    - Employment
  - **Will always be vehicle dependent**
    - (Catchment too large and uses need vehicles**)**

- **The neighbourhoods**
  - Local / daily uses
  - Linkages to larger transportation network

- **Can / should be active transportation focused**

Transportation, infrastructure and amenity costs

- **How to pay for transportation, infrastructure and amenities?**

- **Development Cost Charges**

- **Allocate some costs to new housing**
  - Paying for growth
- **Share costs and benefits more equally across time**
- **Does not unduly increase costs of housing**

- **Large costs to new development**

- **Adds costs to new construction**
  - Rarely / never taken out of the land price (Its unknown at time of land purchase)
- **Increases housing costs / prices**
  - Of impacted project
  - Of entire neighbourhood next year via BC Assessment

Parks, open space and urban trees

- **Important for sustainable and healthy cities!**

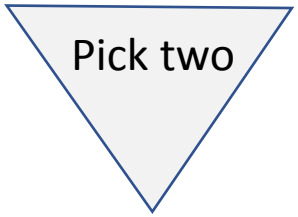
- **Low density** →
  - **Extensive private open space / permeability**
  - **Less need for public parks / open space / alternative streets**

- **Higher density** →
  - **Minimal private open space / permeability**
  - **More need for public parks / open space / alternative streets**

Parks and open space

- **Urban infill space = a zero-sum game**

- **Housing / buildings**
- **Greenspace**
- **Streets / parking**



- **In higher density / infill neighbourhoods:**
  - Housing takes up more space
  - Minimum parking is required
  - Greenspace demand goes up

- **Need more public green space.**
  - Expensive to buy land
  - =Green streets and pocket parks

Urban trees

- **Positives**
  - Green canopy
  - Mitigate heat island effect
  - Carbon sink
  - Clean urban air
  - Urban habitat
  - Higher land values
  - Neighbourhood identity

- **Challenges for housing**
  - Rootball protection reduces site viability / parkade size
  - Reduce density in key areas
  - In wrong place for utilities
  - Existing trees often die after development (impacts / species)
  - Weaponized for NIMBY

- **Recommendations**
  - Protect significant trees with incentives / variances
  - Robust new tree planting plan of appropriate species / locations
  - *(remember all existing older treed neighbourhoods were clearcut originally)*

Neighbourhood character and design guidelines

- **Building / neighbourhood character and design is important**
- **We all like different things… <u>but we do not agree.</u>**

- **Council's design input tools:**
  - OCP design guidelines
  - Design panel (appointees)

Change these

- **Design process during approvals**

- **Market preference inputs**
- **Developer preferences**

Take-aways

- **It is a partnership – we are interdependent.**
- **Development is extremely complex and risky**
- **Plan for significant supply of developable land with good growth geometry.**

- **Provide long lead times for changes that increase cost**
  - So can partly come out of land cost – eg: before purchase
  - Once land is purchased, all new costs are added to the price of housing
- **Plan for significant supply of developable land with good growth geometry.**

UDI online courses

1. **Proformas**
2. **Securing land**
3. **Concept development**
4. **Financing**
5. **Law and development**
6. **Approvals**
7. **Technical studies**
8. **Community relations**
9. **Marketing, sales, leasing and launching construction**

Thank you

Mark Holland RPP
mark@westplanconsulting.ca