



## **Kelowna's Next Official Community Plan 2020-2040**

**and**

## **Why Growth Scenario 3 is a Bad Choice for the Community**

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### **Executive Summary**

- The City of Kelowna is working towards a new Official Community Plan (OCP) that will shape how the city accommodates growth from 2020-2040.
- The Growth Scenario component of the OCP sets the basic parameters for the overall growth target and how and where the residential growth will be accommodated in general terms.
- City Council rejected their own staff recommendation, which was developed in consultation with the public and industry, in favour of a more aggressive approach to restricting single family and suburban growth. This is Growth Scenario 3.
- Growth scenario 3 has been approved without the due diligence and open discussion regarding impacts. A more complete discussion of the ramifications should be required of a decision that will have such a serious impact on Kelowna.
- Growth Scenario 3 results in an imbalance between single detached housing and multiple housing when compared to historical data and future forecasts based on historical demand.
- Growth Scenario 3 would actually rescind areas within Wilden, Kirschner Mountain and The Ponds that were previously approved by Council. These are the areas in jeopardy.
- The areas in jeopardy are already well under construction and have installed infrastructure to service the master planned areas as previously approved. The overall vision for these communities would never be realized, nor will the expectations of the residents who purchased in those communities.
- Artificially restricting supply in the face of steady demand will result in price increases for all housing types from single family to multifamily. This will in turn impact the cost and feasibility for re-developing areas where the City wants to see infill development of multifamily housing projects. Affordability will decrease.
- Demand for single detached housing will be supplied by neighboring communities while the City of Kelowna will have to deal with the impacts of more regional commuter traffic. Additionally, traffic will continue to increase within the city as the residents of neighbourhoods like Wilden, The Ponds, Kirschner Mountain, Crawford Estates, etc. all continue to drive significant distances for services.

## **Background**

City staff and Council have been working towards a new Official Community Plan (OCP) for the City of Kelowna for approximately the last two years. Staff has conducted significant public consultation through the Imagine Kelowna process and other initiatives to help define the highest level goals and parameters for the next OCP. In 2018, staff spent a lot of time and effort to portray four different and distinct Growth Scenarios (one through four) which were again presented to the public and stakeholder groups for input. All four scenarios were based on overall growth in population of 50,000 in Kelowna by the time we reach 2040. The scenarios differed in how this growth would be accommodated. Generally, Scenarios 1 and 2 saw a continuation of past trends with a balance of suburban and urban development while scenarios 3 and 4 pushed more growth into the core urban areas and restricted growth in suburban areas.

Staff developed a hybrid scenario that fell somewhere between Scenario 2 and 3 as their recommendation to Council based on a number of factors. This hybrid has been termed Scenario 2.5 and called for the majority of the population growth housed in multi-family housing (75% multi-family and 25% single/two family) with 33% of development in suburban areas and 66% in urban areas.

UDI/Industry Stakeholders commented back to City staff that this was still an aggressive shift in the type and location of housing to support growth, but understood that this was a compromise and were prepared to continue to work with staff on refining Scenario 2.5. Staff took a report to Council on December 10, 2018 recommending that Council endorse Scenario 2.5 for the basis of further work on developing a land use plan and other policies for the new OCP. In a 5-4 vote, Council rejected the recommendation and followed up with a Council Resolution to endorse Scenario 3. Currently, staff are working on an information update for Council likely to happen in the second half of February 2019 but no firm date has been set.

Scenario 3 requires that 80% of the housing for the growth in population be in the form of multi-family and 20% be provided in single/two family. Further, and possibly of higher market and feasibility impact, only 19% of this growth is to occur in suburban areas and 81% will have to occur in urban areas. In order to achieve this scenario, lands in the SW Mission, Kirschner Mountain and Wilden that are already supported by the current OCP for suburban growth will have to be re-designated with planned development cancelled.

The implications of Scenario 3 are far reaching and there are significant unintended consequences that cannot be accurately predicted. The following discussion paper outlines the implications that UDI and Industry Stakeholders have identified as negative outcomes of this current direction by City Council.

## **By the Numbers**

Development statistics are readily available from the City and these have been used to demonstrate past residential growth by housing type.

Housing Type	2008-2017 Total	10 Yr Annual Average	2013-2017 Total	5 Yr Annual Average
Single Detached	5110	511	3278	656
Multiple Housing	6327	633	4363	873

This simplified table shows that both single detached and multiple housing average annual unit construction are higher in the past five-year trend than they are over the longer 10 year trend. This is to be expected in a community such as Kelowna where overall growth rates have been generally positive year over year. The averages also hide the highs and lows. For example, in the past ten years, we have seen a low of 280 single detached homes in 2009 to a high of 939 in 2017. Similarly, multiple housing hit a low of only 90 units constructed in 2011 and a high 1583 in 2017. The housing market is dynamic and there are many factors that contribute to highs and lows. That is why we look at historical averages as the best way to try and predict future growth – both long and short term.

Between 2015 and 2018, there were at least 2000 purpose built rental housing units constructed. This is not a long-term trend, but rather, a result of a limited market opportunity. The number of purpose built rental units has already declined in the near term and the city will not likely see this rate of construction again for some time. The combination of market conditions that led to this burst of rental construction were sustained periods of low vacancy rates, low interest rates and developers who wanted to add revenue generating properties to their holdings. These factors have now eased, and recent provincial policies regarding rental housing are unfavorable to market rental housing developers. Purpose built rentals do not financially work for many rental projects now under consideration in Kelowna and the rest of BC. This should be factored in to the 5-year average which would likely decrease the annual unit count in the next few years for multiple housing units. If even 50% of the purpose built rental housing units continue, the five-year annual average is likely closer to 675-700 unit per year. In reality, purpose built rental will likely decrease further as an annual contributor to multiple housing starts.

The OCP Growth Scenarios set the targets for overall growth over the twenty-year period from 2020-2040. The table below compares the five and ten-year average to the twenty-year average that Growth Scenario 3 equates to.

Housing Type	10 Yr Average	5 year Average	Scenario 3 Average
Single Detached	511	656	250
Multiple Housing	633	873	1000
Multiple Housing Adjusted for Reduced Purpose Built Rental Starts	533	673	1000

The above table demonstrates how radical a shift in housing production Scenario 3 represents. The difference in historical annual average and the twenty-year average under scenario 3 is even more significant when a gradual shift is factored in. For example, it is unlikely that single detached construction will drop by 50-60% to 250 units in 2020, rather it will continue at or close to historical averages until there is no more land left for this kind of housing. That would result in no new single detached housing opportunities within the City of Kelowna in 8-10 years. Similarly, market demand for multiple housing is unlikely to shift upward by 25-40% in 2020. Since the market is what governs what product the development industry builds, the shortfalls in the multi-family housing goals will only be exacerbated as time goes on. The implications around these shifts are significant and there are likely many that cannot be predicted.

It is also worthy to note that recent market forecasting for the entire Central Okanagan Regional District (Andrew Ramlo, Rennie Marketing) estimated that the demand by housing type for the period up to 2036 would be approximately 24,481 ground oriented units and 9747 apartment units. Essentially the exact opposite comparative mix than Growth Scenario 3 endorses. Since the City of Kelowna does not control the decisions outside of its borders, it will be other communities that will meet the need for ground-oriented family housing. Those residents will then continue to work in, and use the services of, Kelowna without contributing to the cost of our infrastructure and services.

### **Supply and Demand**

Basic economic principles of supply and demand foreshadow that single detached housing will increase in value if the supply is restricted. Similarly, it will not be possible to physically obtain approvals and construct the volume of multifamily units projected by this growth scenario, again, leading to increased prices due to limited supply. Generally, industry builds to market demand and self corrects when imbalance occurs between demand and supply. No market is perfectly balanced nor efficient, so 1000 less single family units will not equate to 1000 new multi starts. It must be pointed out that these conditions are being created artificially by OCP Growth Scenario Policy. There is significant amount of suburban land that has been planned and already serviced to meet market demand. Multi-family housing projects are currently being received well by the market, and are being supplied at a healthy rate. In other words, market conditions are considered relatively in balance for multiple housing

Price escalation for single detached housing will also not be limited to new housing stock. All single detached housing will rise in value exacerbating the challenge of housing affordability or attainability. This has further implications for the older neighbourhoods where the City wants to see infill re-development. Infill re-development requires land assembly of existing housing stock or assets. As new single family lots and single family housing increases in price due to artificially lowered supply through scenario 3, the existing asset values (older stock housing for redevelopment) will also rise making projects infeasible or will increase the price of the finished product for infill re-development.

In summary, all housing types, due to economic supply and demand principles, will become less affordable due to this policy as opposed to gradual changes based on free market supply and demand.

## **Master Planned Communities at Risk**

Suburban growth areas have all been planned for a significant amount of time. In some cases, the City conducted a Sector Plan which looks at a large area of the City and sets a plan for land use and infrastructure servicing requirements. The South West Mission area is an example of the result of a Sector Plan. For slightly smaller areas that are typically controlled by one or a few land owners, the City requires an Area Structure Plan to achieve the same purpose – determine land use and servicing requirements. Kirschner Mountain, Kettle Valley (Neighbourhood 1), Southridge and the Quarry (Neighbourhood 2), The Ponds (Neighbourhood 3), and Wilden are examples of Area Structure Plans. Once these broad-based plans are adopted by Council, the OCP is typically updated to acknowledge that certain lands will be developed for certain broad uses. The Area Structure Plan process is also commonly referred to as a Master Planned Community.

City staff has confirmed that Growth Scenario 3 will require areas of at least three Area Structure Plans to be rescinded for future development. Wilden, Kirschner Mountain and the Ponds are all exposed to having lands that are currently supported for development re-designated for some non-development use. Set aside the financial implications for the land owners and developers; set aside the notion of bad faith on the part of Council and staff; set aside the higher taxes (for decades in many cases) paid by the landowners on BC Assessment valuations based on the Sector Area planned development units; set aside the sunk cost of the studies and plans; set aside the sunk cost of infrastructure that is already in the ground; set aside that some of the infrastructure may not function properly if there is not the planned amount of development: the real impact is that these communities will never fulfill the vision that they were planned for. The residents who have already invested in homes and business opportunities will never have their community completed to fulfill the original vision. Park and trail networks will not be completed, commercial services will never get developed as intended, road systems will not be completed leaving missing links or dead ends, school sites will not be developed as planned. In summary, this policy will short change thousands of residents who purchased on the faith of previous City Councils' endorsements of these communities.

Similar to the analogy of oil and gas reductions where we cannot quit 'cold turkey' and will likely take 2-4 decades to move fully away from these energy sources to more renewable energy and material sources, when it comes to housing, a community cannot reasonably transition away from predominantly suburban growth to predominantly multi-family growth in a quick and dramatic way over a short period of time without significant consequences. We can transition to this scenario in a responsible way though, but only with sufficient lead time, resources, collaborative planning with industry and government, along with creative planning/zoning, and an affordable land base. As noted, too fast of a shift will permanently drive all land prices up significantly. A more gradual plan to achieve the desired outcome would be to work with industry and stakeholders to plan something sustainable, evolving over the next decade that is not financially punitive/adverse to the current development community and radically distorts the existing balanced Kelowna housing market.

## **Impacts of Regional Growth**

If suburban development and the supply of single detached housing is restricted, it follows that market demand for this kind of housing cannot be satisfied within Kelowna city limits. There are opportunities in Lake Country and West Kelowna and beyond for suburban development that can meet the demand. Despite the fact that these communities are their own municipalities, Kelowna is the centre and will continue to be the prime location for most of the employment, commercial, industrial and institutional services for the regional area. People who choose to live in the surrounding municipalities will still have an impact on the services Kelowna provides and the roads we build.

Recent statistics for Lake Country show the potential impact of differential regional policies. Total building permit values jumped ten-fold from 2017 to 2018 from approximately \$9 million to \$95 million. This was likely partially due to a slight difference in affordability, but most likely influenced by the provincial speculation tax policy that applies to Kelowna, but not Lake Country. If Kelowna artificially restricts single detached housing, the demand will shift to neighboring municipalities where the demand can be supplied.

City staff are quick to dismiss this aspect, responding that growth in those areas is going to happen regardless of how we grow within our City. The difference is this -- any development within the City of Kelowna contributes significant money for infrastructure, Development Cost Charges, School Site Acquisition Charges, provision of parks and the resulting ongoing tax base. Development outside of the City contributes none of this. So again, if we accept that this growth is going to happen within our boundaries or immediately outside of it, why wouldn't we want to get the financial benefits of it within our boundaries? The City should be competing for this development, not shunning it.

## **Infrastructure**

The suburban areas currently identified for growth all have the majority of the infrastructure installed. If the infrastructure is not yet installed, then the current capital plan, which all development funds, has provision for the required upgrades based on future contributions from planned development. If some of this future planned development is rescinded, it makes the infrastructure already committed less efficient and it jeopardizes the required upgrades that, in some cases, are already necessary. For communities such as Wilden and Kirschner Mountain, the proposed reduction in future development would mean that some infrastructure components that are already constructed would effectively be oversized and may never function as efficiently or safely as designed.

## **Affordability**

The concentration of all future growth in a very small area in the city will have a major impact on affordability. The majority of sites within the proposed growth areas are not for sale and will not be for sale over the life of this OCP. Typically, less than 3% of land in the city changes hands in a year, even less in the denser urban areas. This means that a very small fraction of the lands within the proposed growth areas will actually be for sale in the next 10 years (likely less than 25%). All developers who are then trying to build to meet the demand for housing will have to compete for those few sites. This will

cause a significant price escalation. It is important that Council not underestimate the implications that Scenario 3 will have on the escalation of pricing of all forms of housing within Kelowna.

The focus on high density residential also raises another challenge. Those buildings bring many units into the market at the same time and, if they are towers, they have to presell upwards of 100 units in order to acquire financing to build the building (given a typical tower will have approx. 20 storeys at 6 units per floor). Towers often also can cost in the range of \$100 million to construct, thereby removing most existing Kelowna developers and homebuilders from being able to participate in supplying units to meet Kelowna's demand. This means that only large development companies (many from Vancouver, other major Canadian Cities or International firms) can build these. Furthermore, these companies then have to wait until the market pressure is significant to be able to presell that many units – and both factors are associated with driving up housing costs.

The relative lock-down on new single family in a context of a continued healthy demand for single family will further drive up the price of that housing type, regardless of the age of the home, and affordability for families will be further eroded, rather than improved. Since no one has the right to tell a family what type of housing to choose, if a single-family home option is sought, it will be found outside of Kelowna's boundaries.

Housing affordability is now one of the greatest threats that Kelowna faces for its future. With housing expected to become even more unaffordable for many families and seniors on fixed incomes, a balance with all demographics represented well within our city will be significantly impacted.

### **Climate change**

It has been stated that one of the key reasons some council members have supported scenario 3 is based on the assumption that scenario 3 will reduce the overall amount of automobile travel required for daily living and thereby reduce carbon emissions. The challenge with the proposed approach in Scenario 3 is that because Kelowna is part of a regional context where its neighbours are embracing development (Lake Country, West Kelowna, others), and because the market still wants single family homes, those who want or need to purchase a single-family home to meet the needs of their family, will now purchase in the other regional municipalities and commute into Kelowna for work and shopping. This pattern will then actually increase the average distance of commuting and thereby climate emissions.

Further, with complete communities not to be realized in the already-planned master-planned communities, those residents will continue to drive long distances for services. The 'walkability' that was promised to them will not occur. The decision to curtail the completion of those communities will add to the traffic on our roads, not decrease it.

When looking through the lens of sustainability, it is important that all three legs of sustainability are equally implemented to prevent adverse effects to the others not considered: economic, social, environmental.

With regards to the environmental sustainability and cost differentials for the various types of built forms, it becomes apparent that all forms of wood frame construction are more environmental and more affordable when compared to steel and concrete forms. For example, a single-family wood frame built to the minimum code requirements costs \$270/SF to build, whereas wood frame midrise is \$425/SF and concrete high-rise is \$650/SF+. Low density wood frame can be constructed to a passive house standard (beyond step 5) for \$315/SF. This can only be achieved with an affordable land base. Home emissions and GHGs from passive houses likely more than offset transportation reductions associated with living in higher density multi-family units. Furthermore, it is widely anticipated that personal transportation will undergo a dramatic change over the next twenty years including electric vehicles (or other cleaner alternative fuels than petroleum), ride sharing, autonomous vehicles, etc., all of which are anticipated to reduce the environmental impact of personal travel.

### **Shifting the focus from housing to complete neighbourhoods**

The City of Kelowna has no control over what type of home a Canadian citizen chooses to buy in the Okanagan, but they can support the location of homes to be as close to mixed uses and thereby minimize travel distances.

While a move to increasing the availability and diversity of multi-family housing is a positive direction overall, the distance between housing and jobs, shopping and schools is the result of city-wide zoning patterns, and thereby entirely constructed by city planners and Council. The decision to force the majority of office growth into a small area in the old city has created the commuting problem for the entire region and thus set the stage for the push for Scenario 3, to force housing closer to where the city put those jobs.

That pattern cannot continue into the future as there is little land left for the next 10-20 years of growth of commercial in the old city area. Furthermore, the cost of constructing towers scale development in the old city area is overly expensive due to the hydro-geological conditions. In addition, forcing the next generation of families into a small area in the core will overload those few schools left close to core areas and public amenities over the next decade or two. It should be considered where the School District has new schools planned – mostly in suburban and single family neighborhoods.

The city can however achieve a better overall environmental, economic and social performance by shifting its focus from solely the location of housing to the location of complete neighbourhoods with housing, jobs, shopping and education. By moving employment and major shopping areas in the future out of the core and into new corridors and centres across the city closer to where there is land available for housing, the commuting distance reductions will be equal or less to the proposed scenario and the diversity and affordability of housing in the city will exceed that envisioned in Scenario 3.

The location of commercial areas is as easy to reposition in the city as residential areas are. The City needs to stop focusing on where residential goes presuming commercial areas cannot move. The locations and types of both are equally flexible.



Instead of pursuing Scenario 3 with a focus solely on housing, Kelowna should refocus on establishing a greater density and presence of commercial in many new town centres and commercial corridors across the city that will create a balance in housing, jobs and education capacity in every neighbourhood. This increases sustainability, resiliency, healthy neighbourhood performance, and interestingly, is also exactly what the market wants today (i.e.: the importance of walk-score in real estate marketing).

The three suburban areas that are in jeopardy for future development under Scenario 3 all have commercial components planned within or nearby. They similarly have schools that either exist, are under construction or are planned in the near future to serve the planned growth. If the residential capacity is reduced or diminished, both the commercial and institutional projects are also in jeopardy. This is a backward step towards making these suburban areas more complete communities and derails the benefits that could lessen the overall impact of these developments on transportation infrastructure and the environment.

### **What's the Upside?**

For those that see this as a one-sided argument for more suburban development, that is not the intent. The goals and plans the City has for densifying the urban areas are admirable. The City has done a great job of fostering a conducive environment for densification in areas such as Downtown and South Pandosy. The results speak for themselves. However, policy decision can only influence the market, they cannot dictate it. Growth Scenario 3 results in combined and cumulative impacts that will not be positive influences on either suburban or urban residential growth. We will eventually run out of suburban land that is suitable for development. While this is a reality based on our geography, the City should not artificially hasten the reality. The City has already implemented a Permanent Growth Boundary to restrict the extent of development in suburban areas. Lands within the Permanent Growth boundary should be developed as efficiently as possible to accommodate as much housing as possible. Instead, the direction of Council with its support of Scenario 3 is to do the opposite.

If it is assumed that Kelowna will bear the impact of Regional Growth; if it is assumed that market demand for suburban development will continue; if it is assumed that less than the anticipated 80% of the 50,000 new residents to Kelowna will want to live in multiple-unit housing; if we believe that those landowners and developers who have invested millions of dollars in a shared vision supported by Council deserve better; if we believe the residents who believed in the notion of a Master Planned Community deserve to see the vision completed: Growth Scenario 3 is not the right path for the City of Kelowna and will result in un-intended consequences the magnitude of which will only be realized over the coming years, at which time, an attempt to change course abruptly will be very difficult

Council is urged to reconsider its path regarding the next OCP and re-visit the growth strategy to ensure that all existing master planned communities are allowed to be completed as proposed in the current OCP and Area Structure Plans. Alternatively, further consultation with industry to find a better compromise would be welcomed because the healthy future of our City is of critical importance to all of us. Councilors are also urged to find consensus amongst their elected colleagues – a 5 to 4 vote on something as important as our next OCP does not provide a level of confidence for your staff or the

public. There should be much great consensus on the vision for Kelowna's future, consensus we believe can be reached if a more thorough discussion is had regarding the consequences of the choices before Council.