

# Report to Council



**Date:** August 12, 2019  
**File:** 0710-40  
**To:** Council  
**From:** City Manager  
**Subject:** Healthy Housing Strategy Implementation - Rental Housing Incentives Update

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## **Recommendation:**

THAT Council receives, for information, the Report from the Long Range Policy Planning Department dated August 12, 2019 with respect to the policy and bylaw updates to support the City's Healthy Housing Strategy;

AND THAT Council Policy No. 335, being the Rental Housing Grants Policy, be revised as outlined in the Report from the Planner Specialist dated August 12, 2019;

AND THAT Bylaw No. 11911 being Amendment No. 6 to Housing Opportunities Reserve Fund Bylaw No. 8593, be forwarded for reading consideration;

AND FURTHER THAT Bylaw No. 11912 being Amendment No. 7 to Revitalization Tax Exemption Bylaw No. 9561, be forwarded for reading consideration.

## **Purpose:**

To update the Council Policy 335: Rental Housing Grants Policy, the Housing Opportunities Reserve Fund Bylaw 8593 and the Revitalization Tax Exemption Bylaw 9561 to align with the recommendations of the Healthy Housing Strategy.

## **Background:**

On June 25, 2018 Council endorsed the Healthy Housing Strategy (HHS). This Strategy aims to address the community's most pressing housing issues through the following vision: "*the housing needs of all Kelowna residents are met through affordable, accessible and diverse housing options*".

The Healthy Housing Strategy (HHS) includes four key directions and 19 actions to be implemented over the next five years. The four key directions include:

1. Promote and protect rental housing;
2. Improve housing affordability and reduce barriers for affordable housing;
3. Build the right supply; and
4. Strengthen partnerships and align investments.

The first key direction, “Promote and protect rental housing” was created in recognition of the vital role that rental housing plays in Kelowna’s housing system. As the ownership market becomes more difficult to enter due to escalating prices, the rental market is expected to grow in importance. The Housing Needs Assessment (HNA), endorsed by Council on November 20, 2017, recommends an annual target of 400 purpose-built rental units to meet the growing demand in Kelowna. As a result, investments in purpose-built rental housing are required to ensure a healthy supply of rental housing. The HNA identified the need for affordable rental housing that is most often provided by non-profit housing providers. Achieving the Healthy Housing Strategy’s rental housing objectives will require action and investment on a number of fronts, two of which are the subject of this report: (1) the Rental Housing Grants Program, and (2) the Revitalization Tax Exemption program.

#### 1.0 Rental Housing Grants Program

One of the Healthy Housing Strategy actions is to “reduce the cost of building affordable, purpose-built rental housing”. This action relates to the upfront Development Cost Charges (DCC) that are triggered for new housing when a Building Permit application is submitted. Ranging from about \$13,000-\$22,000 per unit, these costs cover the city-wide infrastructure needed to service new development. For non-profit, purpose-built rental housing projects, DCC’s represent a significant financial cost and can act as a barrier to the financial feasibility of projects.

The City’s Rental Housing Grant Program currently offers all market and non-market purpose-built rental housing the opportunity to obtain grant funding as a measure to offset DCC’s. The funding source for the Rental Housing Grant Program is \$120,000 via taxation and a \$200,000 appropriation from the Housing Opportunities Reserve Fund (HORF).

While market rental projects and non-profit rental projects are treated equally in the grants program today, each group values the grants differently. In staff discussions with market rental housing providers, these grants are not seen as vital to a project’s viability. In the case of non-profit rental projects (often providing affordable housing or supportive housing), every incentive available is highly important to decisions about whether a project will proceed.

Over the last four years, the Rental Housing Grants program has seen a significant uptick in interest. The increase in the number of applications corresponds to a spike in the construction of new purpose-built rental housing. However, the vast majority of applications to the program were for market rental housing projects with no links to affordability. Due to the large number of projects applying to the

program, the grant amounts for each individual application decreased substantially (in order for each applicant to benefit from the program). Over the last four years, the grants have covered 5-10 per cent of a project's DCCs. In short, the rapid influx of market rental housing applications has resulted in the distribution of many small grants, but fewer meaningful contributions to support non-market rental housing projects.

#### Proposed Updates to the Rental Housing Grants Program

The Healthy Housing Strategy recommended shifting the \$200,000 annual HORF allocation from grants to land acquisition. In 2019 this change was made through the budget process to restore the historical contribution to the HORF reserve, ensuring that the City can build a balance in the reserve for affordable housing partnerships in the future.

Because of the \$200,000 HORF allocation being shifted from the rental housing grants program to land acquisition, the grants program was left with only \$120,000. Accordingly, through 2019 budget process an annual operating budget allocation was approved, resulting in a new annual funding allocation of \$180,000 that will be phased in over the next three years to offset the shift of the HORF allocation, ensuring the rental housing grant program remains essentially unchanged at \$300,000. Also, to increase the impact of the \$300,000 in rental housing grants, staff is recommending the eligibility criteria be shifted to focus on a smaller pool of non-market rental projects.

To maximize the program's benefits and to align with the Healthy Housing Strategy recommendations, Staff are proposing three main changes to the Rental Housing Grant Program:

1. Separate the funding so that land acquisition and DCC relief are not combined;
2. Change the project eligibility requirements to focus exclusively on non-profit housing developers / providers that are delivering non-market rentals; and
3. Change the project eligibility requirements to focus affordable rental projects in areas where the City plans to invest in frequent transit and active transportation infrastructure.

The proposed changes to the program will require an update to Council Policy 335: Rental Housing Grants Policy (see attached for updated Policy) and minor changes to the Housing Opportunities Reserve Fund Bylaw (attached for bylaw amendments).

The primary goal of these changes (see Attachment A for more detail) is to ensure that the grants are aiding those projects that have the greatest impact on promoting affordability in the long-term rental market. It is anticipated that this change will provide the greatest positive impact to the non-market units that are operated by a non-profit, and in practice, are the most difficult to finance given increasing land and construction costs.

#### 2.0 Rental Housing Tax Exemption Program

Another key action of the Healthy Housing Strategy is to "revise tax incentives for purpose-built rental housing". This action directly addresses the City's primary incentive to encourage new long-term, purpose-built rental housing: The Rental Housing Revitalization Tax Exemption Program. Over the last

five years, roughly 25 Revitalization Tax Exemption Agreements for rental housing were approved, with a mix of both market and non-market rental projects utilizing the program. Based on discussions with market rental housing providers and a financial analysis of the program, staff has determined that the rental housing tax exemption is a much more important incentive for rental housing providers. Recent staff analysis shows that on average, a mid-market rental housing project receives roughly \$7,000 per door over the ten-year lifespan of the tax exemption. In comparison, the rental housing grants ranged from \$500 to \$3,000 per door depending on unit type and number of applications over the last four years.

### *Proposed Changes to the Rental Housing Tax Exemption*

Staff continue to see a role for the rental housing tax exemption program to support both market and non-market rentals given the rental housing market in Kelowna remains constrained with a vacancy rate below 2 per cent. However, staff are proposing minor changes to the rental housing tax exemption program to implement the HHS recommendations and to ensure the Rental Housing Grants Program is aligned with the Rental Housing Revitalization Tax Exemption program. These changes include amending the application criteria, updating the definition of 'affordable rental housing', and to provide clarity for geographic locations for land acquisitions pursued with the Housing Opportunities Reserve Fund. The proposed changes (see Attachment A for more detail) will encourage continued investment in rental housing and ensure rental housing development locates in areas that are well served by transit and other key amenities (shops, services, parks and schools).

### **Summary**

With more and more of the population relying on rental housing, purpose-built rental housing in Kelowna will only become more important to ensure residents have access to attainable and affordable housing. The bylaw and policy updates proposed in this report are a key step toward the Healthy Housing Strategy goal of promoting and protecting the supply of long-term rental housing. As other Healthy Housing Strategy recommendations are implemented, further momentum will be achieved to promote affordable and attainable housing options in Kelowna.

### **Internal Circulation:**

Planning & Development Services Divisional Director  
Department Manager, Policy and Planning  
Manager, Long Range Policy Planning  
Department Manager, Development Planning  
City Clerk  
Budget Supervisor  
Revenue Supervisor

### **Existing Policy:**

Council Policy 335: Rental Housing Grants Policy

Submitted by:

R. Soward, Planner Specialist

**Approved for inclusion:**



James Moore, Long Range Policy Planning Manager

**Attachments:**

Attachment A: Summary of Proposed Updates to Rental Incentives

Draft Council Policy 335: Rental Housing Grants Eligibility

Existing Council Policy 335: Rental Housing Grants Policy