

Report to Council



Date: July 25, 2016
File: 1220-02
To: City Manager
From: Ross Soward, Planner Specialist
Subject: Revitalization Tax Exemption Program Update

Recommendation:

THAT Council receives, for information, the report from the Planner Specialist, dated July 25, 2016, regarding the status of the Revitalization Tax Exemption Bylaw and purpose-built rental housing tax incentive programs;

AND THAT Council directs staff to move forward with the amendments to the Revitalization Tax Exemption Program Bylaw with respect to Tax Incentive Area 3, as described in the report from the Planner Specialist, dated July 25, 2016.

Purpose:

To receive an update on the status of the Revitalization Tax Exemption Bylaw and purpose-built rental housing tax incentive programs.

Background:

The Revitalization Tax Exemption (RTE) Bylaw was established in 2006 to offer incentives for investment and development in the Downtown and Rutland urban centres. The RTE Bylaw allows eligible developments to receive a ten-year exemption from the municipal portion of property taxes on the incremental value of improvements (i.e.: the difference between assessed value pre-development and assessed value post-development).

In the early years of the program (2006-2011), no qualifying development occurred in the tax incentive areas. In response to this, the incentive program was adjusted in 2012. Since the adjustment in 2012 a range of projects have utilized the Revitalization Tax Exemption for Downtown and Rutland urban centres.

Tax Incentive Areas

The RTE Bylaw stratifies the available tax exemptions by priority areas within the City Centre so that the areas of highest priority for investment receive the greatest tax benefit.

“Tax Incentive Area 1,” 100% of the Revitalization Amount¹ on the parcel;

“Tax Incentive Area 2,” 100% of the Revitalization Amount on the parcel, for a project with a minimum floor area of 3,716 m² (40,000 sq. ft.); 75% of the Revitalization Amount on the parcel which can be attributed to a residential land use, and/or 50% of Revitalization Amount on the parcel which can be attributed to a commercial land use, for a project with a floor area of less than 3,716 m² (40,000 sq. ft.)

“Tax Incentive Area 3”, 50% of Revitalization Amount on the parcel, for a project with a minimum floor area of 3,716 m² (40,000 sq. ft.);

“Tax Incentive Area 4”, 100% of the Revitalization Amount on the parcel; Within Rutland Urban Centre the RTE defines one priority area.

Tax Incentive Area Three is the only area with a cap, being 200,000 ft² and has the lowest level of support. After the completion of the Okanagan Centre for innovation there will be 93,973 ft² of eligible development remaining for this tax incentive area

Figure 1: Development projects benefiting from the tax exemptions in urban centres

Address	Project Name	Urban Centre	Gross Floor Area (ft ²)	Tax Area	Application Number
New RTE Projects at Building Permits Stage 2015-2016					
460 Doyle Ave	Okanagan Centre for Innovation	City Centre	106,027	3	RTE15-0002
Completed RTE Projects 2012-2015					
596 Leon Ave	Leon Avenue Commercial Building	City Centre	4,350	2	RTE11-0001
110-150 Hwy 33 West	Valley First Credit Union	Rutland	15,787	4	RTE12-0001
269-281 Lawrence Ave	Lawrence Avenue Office Building	City Centre	15,651	2	RTE12-0004

¹ “Revitalization Amount” means the municipal portion of property tax calculated in relation to the increase in the assessed value of improvements on the property resulting from the construction or alterations.”

552-554 Leon Ave	Office Building	City Centre	41,089	2	RTE14-0001
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In 2012, the RTE Bylaw was amended to include incentives for the development of purpose-built rental housing anywhere in Kelowna when the vacancy rate is less than three per cent. This incentive complements the City's Rental Housing Grants Program which provides direct financial assistance to purpose-built rental housing projects in the form of Development Cost Charge credits. While the incentive benefits urban centres with increased development, the tax exemption agreements also come at a cost to the City in the form of lost revenue. For example, a recent 70-unit rental project translates into roughly \$345,530 of lost municipal tax revenue over the lifespan of the agreement. The annual amount from each project may seem like a small amount of money given the overall tax base, however there is a cumulative impact. As illustrated in the table below a growing number of purpose-built rental housing projects have taken advantage of the program.

Figure 2: Purpose-built Rental housing tax exemptions agreements

Address	Project Name	Number of Units	Status	Application Number
Past Rental Housing Tax Exemption Agreements 2012-2015				
598 Sutherland Ave	4 Storey Apartment	16 apartment units	Complete	RTE12-0003
1155 Brookside Ave	Brookside City Homes	70 townhouse units	Complete	RTE12-0005
1507-1511 Dickson Ave	Purpose-built Rental Housing	90 apartment units	Under Construction	RTE14-0003
2016 Rental Housing Tax Exemption Agreements (Forthcoming)				
2127 Ethel St	Purpose-built Rental Housing	24 row house Units (Micro-suites)	Complete	RTE15-0001
678 Richter St	Pleasantvale	50 apartment units 20 townhouse units	Complete	RTE16-0002
805 Academy Way	U3 Rentals	64 apartment units	Under Construction	RTE16-0001
2065-2075 Benvoulin Crt	Seniors Housing	78 apartment units	Under Construction	RTE16-0003
305 Homer Rd	Purpose-built Rental Housing	9 townhouse units	Under Construction	RTE15-0003

Anticipated Rental Housing Tax Exemption Agreements in 2016-2017				
125 Dundas Rd	Purpose-built Rental Housing	23 apartment units	Development permit	N/A
1745 Chapman Pl	Social Housing	86 apartment units	Under Construction	N/A
800 Academy Way	Purpose-built Rental Housing	316 micro units	Development Permit	N/A

Discussion

Urban Centre Revitalization

Kelowna's urban centres are expected to accommodate 45% of future growth. The development and intensification of the Downtown and Rutland is critical to the City realizing the goal of livable mixed-use urban centres. However, the shift to more compact development requires the development community to take on more complex urban multi-storey projects. In addition, the Downtown and the city's other urban centres currently have low population densities, reflecting the high proportion of development that was commercial over the last five years. Accordingly, the tax incentive areas and the rental housing tax exemption programs are policy incentives to encourage the shift from greenfield to urban redevelopment projects as well as an opportunity to encourage more residential development.

The City Centre is becoming a hub of construction activity with the Interior Health Service Building and Centre for Innovation adding over 200,000 square feet of office space to the Downtown. A number of other projects such as Central Green have started construction, indicating increased market confidence and growing momentum for downtown development. Recent discussions with developers indicate that Sole 2 on St. Paul St (Tax Incentive Area 3) are interested in pursuing revitalization tax exemptions for their upcoming project. Given the amount of development and investment expected in Tax Incentive Area Three, shifting the remaining 93,973 ft² to residential could complement the city's efforts to balance employment and residential densities within this area of Downtown.

In contrast, the Tax Incentive Area One and Two have seen less development activity with only one new commercial project in Tax Incentive Area Two (455 Lawrence Ave). However, the City's recent listing of the sites at 1558 and 1580 Ellis Street will provide two more mixed use development sites to the downtown, supporting the revitalization of the lands south of Bernard Avenue that are part of Tax Incentive Area Two. Also, Rutland urban centre has had less uptake since the program was expanded. Several projects are currently moving through the development permit process, but no new building permits have been issued in 2016. The recent civic investments (Roxby Plaza and Rutland Centennial Park) and the RTE program are

complementary incentives to encourage private sector investment in the area moving forward.

Purpose-built Rental Housing

The purpose-built rental housing tax incentives under the RTE Bylaw have also seen growing interest. Two new projects (Ethel Street and Dickson Avenue) will be completed in 2016, providing 114 new rental units within the urban core. Four RTE agreements under the rental housing program are forthcoming in 2016, reflecting the growing number of purpose-built rental housing projects that are moving toward construction. For example, a recent review by staff indicate that approximately 1,048 purpose-built rental units are to be completed or moving toward construction in 2016-17. Also, the City's Rental Housing Grants Program received six applications for 329 units in 2016. While, the development market has taken steps to respond to the low rental housing vacancy rates, recent Canada Mortgage and Housing Corporation reports indicate that future population growth in Kelowna will mean that the rental housing demand will continue to outpace the supply in the short-term as many of the approved projects are not expected to be completed before 2017/2018.

Conclusion

There is a shift in development trends occurring in Kelowna with multi-family units now outpacing the number of single-family units, and a growing number of projects are poised for construction in the city's Urban Core in 2016/2017. The RTE Bylaw continues to be a complementary tool to reinforce these shifts and to address key challenges, such as purpose-built rental housing and downtown revitalization. Given the significant need for rental housing in Kelowna, the lost revenue associated with the program is supported given the importance of encouraging new rental housing projects. Recent uptake by the development community indicates the RTE rental housing tax incentive is an effective tool to support developers and non-profits in bringing new rental housing units to market.

Given the development markets growing interest in Tax Incentive Area Three of downtown, staff are recommending that the remaining revitalization tax exemption be focused on residential development. This would ensure the remaining 93,973 ft² in Tax Incentive Area Three is absorbed by residential projects, adding to the city's housing supply and supporting the city's goals of an active and vibrant Downtown. This will require a minor amendment to the bylaw (Tax Incentive Area 3), but reflects the importance of encouraging a balance of both commercial and residential development to create successful urban centres.

In summary, the RTE Bylaw is one tool to promote investment in the urban centres and to address the urgent need for purpose-built rental housing in the near-term. A more fulsome staff review of the RTE Bylaw and incentives in 2017 is planned, given the significant number of applications that are moving forward to building permit or construction for 2016/2017. As construction begins on these projects staff will be better equipped to assess the health of the development market in Downtown Kelowna and the priorities for incentives. The RTE Bylaw continues to promote key city objectives such as smart growth, economic development and housing affordability.

Internal Circulation:

City Clerk
Director, Financial Services
Manager, Urban Planning
Director, Real Estate Services
Manager, Strategic Land Development
Divisional Director, Community Planning & Real Estate
Department Manager, Policy & Planning

Legal/ Statutory Authority:

Revitalization Tax Exemption Program Bylaw No. 9561, 2006
Community Charter, Division, Section 226

Legal/Statutory Procedural Requirements

According to the Revitalization Tax Exemption Bylaw No. 9561, no further applications for tax exemption in Tax Incentive Area 3 will be accepted, once the threshold of 200,000 ft² has been reached.

Existing Policy:

Official Community Plan Bylaw No. 10500

Objective 5.9 - support the creation of affordable and safe rental, non-market and/or special needs housing.

Policy 5.1.3 Rutland & downtown Revitalization Tax Exemption Program. Provide a revitalization tax exemption for the municipal portion of the annual taxes on improvements for development within the City Centre and Rutland Town Centre as per Revitalization Tax Exemption Bylaw No. 9561

Downtown Plan

Action Item 16 - Provide financial incentives for affordable housing

Submitted by: R. Soward, Planner Specialist

Approved for inclusion:



J. Moore, Department Manager of Policy & Planning

Attachments:

Attachment A - Map of the Downtown Tax Incentive Areas
Attachment B - Map of the Rutland Tax Incentive Area

cc:

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