Report to Council

Date: November 23, 2020

To: Council

From: City Manager

Subject: Revitalization Tax Exemption Program Update 2020

Department: Policy & Planning

Recommendation:
THAT Council receives, for information, the report from the Policy & Planning Department, dated November 23, 2020, regarding the status of the Revitalization Tax Exemption Program;

AND THAT Council direct staff to bring forward amendments to the Revitalization Tax Exemption Program Bylaw 9561 as identified in the report from the Planner Specialist, dated November 23, 2020.

Purpose:
To provide Council with an update on the Revitalization Tax Exemption Program and to receive direction to bring forward updates in 2021 to the Revitalization Tax Exemption Program Bylaw 9561 to support Energy Step Code implementation.

Background:
The City provides several financial incentives to support development that aligns with Council priorities. One of the primary incentives is the Revitalization Tax Exemption (RTE) Program Bylaw which encourages investment in rental housing and development in the Downtown and Rutland urban centres. The RTE Program provides eligible developments a ten-year exemption from the municipal portion of property taxes on the incremental value of improvements (i.e. the difference between pre-development assessed value and post-development assessed value of improvements).

The Revitalization Tax Exemption Program Bylaw 9561 establishes the program objectives:

- To encourage new residential and commercial development to locate within urban centres in order to sustain and enhance the existing commercial centres, reduce greenhouse gas emissions associated with transportation, and promote healthy and pedestrian-oriented lifestyles,
- To promote a higher standard of urban design within urban centres in order to increase the attractiveness of these locations to existing and potential residents,
- To encourage a healthy supply of purpose-built rental housing within Kelowna's Core Area and identified Village Centres;
- And to generally reinforce the prominence and importance of urban centres within Kelowna;

This report provides an overview of the RTE program, describing the current exemptions available and the taxation impact for each of the tax incentive areas. The report provides a brief discussion of the costs and benefits of the different parts of the RTE program. Lastly, the report provides recommendations for how the program could be updated in 2021 to align with community and council priorities and remain responsive to local development market trends.

Tax Incentive Areas
The RTE program is comprised of the Downtown, Rutland and Rental Housing Tax Incentive Areas. In 2019, the Rental Housing Tax Incentive Area was updated to encourage the development of rental housing in the Core Area and designated Village Centres to align with the goals of the Healthy Housing Strategy. The revitalization amount for each tax incentive area is described in the table below.

Tax Incentive Area	Revitalization Amount & Program Criteria
Downtown Tax Incentive Areas	
Tax Incentive Area 1	100% of the Revitalization Amount 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.)
No longer active *Tax Incentive Area 3 (Downtown)*	This Tax Incentive Area was capped at 200,000 sq. ft. and is no longer active for new applications.[1]
Rutland Tax Incentive Area	
Tax Incentive Area 3 (Rutland)	100% of the Revitalization Amount on the parcel in the Rutland Urban Centre.
Rental Housing Tax Incentive Area	
Rental Housing Tax Incentive Area	100% of the Revitalization Amount on the parcel in the Core Area, University South Village Centre and the Glenmore Valley Village Centre.

Downtown Tax Incentive Areas
In 2012, when the Downtown Tax Incentive Areas were established, there was limited investment occurring in Downtown Kelowna. However, over the last five years, the Downtown has seen a wave of development activity in the form of mixed-use residential development, rental housing, and several office projects. In 2017, Tax Incentive Area 3 in the downtown reached the 200,000 square foot cap as a result of developments on St. Paul St., Doyle Ave and Central Green applying for tax incentives in Tax Incentive Area 3. Over this time, there were very few applications received in Downtown Kelowna

[1] Tax Incentive Area 3 (Downtown) has several projects with active tax exemptions, but no new applications will be accepted moving forward.

within Tax Incentive Area 1 and Tax Incentive Area 2. But, in December 2019 two tax exemption agreements for major mixed-use strata residential projects in Tax Incentive Area 2 received council approval with exemptions expected to begin in 2022 and 2023.[2] The table below provides a high-level breakdown of the 2020 municipal tax impact for active tax exemptions in the Downtown Tax Incentive Areas.

Downtown Incentive Area	2020 Municipal Tax Impact	Gross Floor Area (Square Feet)
Downtown Tax Area 1	$17,056	15,561
Downtown Tax Area 2	$23,817	45,439
Downtown Tax Area 3 (no longer accepting applications)	$127,403	195,000
Total Downtown Tax Exemption Impacts	**$168,276**	**256,000**

Rutland Tax Incentive Area

Since the establishment of the Rutland Tax Incentive in 2012 only one application was received. Several rental housing projects were developed over the last five years in the Rutland Urban Centre and applied for a revitalization tax exemption under the rental housing component of the program.

Rutland Incentive Area	2020 Municipal Tax Impact	Gross Floor Area (Square Feet)
Rutland Tax Area 3	**$31,189**	**15,787**

Rental Housing Tax Incentive Area

The Rental housing tax incentive area was established in 2012, initially offering exemptions anywhere in the City when a housing agreement was in place and the vacancy rate was below 3 per cent. The program began to receive greater interest in 2016 as Kelowna's vacancy rate dipped to 0.6 per cent and demand for rental housing increased. In 2019, to align with the Healthy Housing Strategy, staff removed the 3 per cent vacancy requirement and introduced a geographic requirement ensuring rental housing tax exemptions were only available for projects located in the Core Area and designated Village Centres. Over the last five years the rental housing tax exemption has become an important financial incentive to support rental housing builders in their efforts to increase rental housing supply. As of 2020, there are 23 projects with active tax exemptions associated with roughly 2,000 purpose-built rental housing units.[3] As of 2020, rental housing projects are receiving an average annual tax exemption of approximately $600 per unit or $6,000 per unit over the 10-year exemption. A breakdown of the overall tax impact for rental housing tax exemptions in 2020 is provided in the table below.

Rental Incentive Area	2020 Municipal Tax Impact	Number of Rental Units
Rental Housing Tax Area	**$1,264,692**	**2,019**

[2] The Ella and the Brooklyn projects received approval for RTE agreements in December 2019.
[3] There are 10 projects (800 long-term rental units) with approved rental housing tax exemption agreements that are not currently receiving a tax exemption, staff expect occupancy for these projects to occur from 2021-2023.

Discussion:
In reviewing the City's financial incentives, staff consulted with several members of the development community to understand the importance of tax exemptions for different projects. The rental housing tax exemption program was identified as having the greatest impact on the financial viability of development projects by reducing operating costs for long-term rental housing. In contrast, the tax exemption has limited benefit for mixed-use strata residential projects. For strata projects, the tax exemption application is made by the developer, but the tax exemption is ultimately passed on to the purchaser of the strata unit and, therefore, does not have a material impact on the viability of these larger mixed-use strata residential projects. One developer did identify that the RTE program does assist with the financial viability of office commercial and retail units in larger mixed-use projects. These discussions reinforced that the rental housing incentive continues to be the most important financial incentive for the development community.

Since the Downtown Tax Incentive Areas were established in 2012 the market for strata residential (condo) units has improved markedly. The sale price for new residential units in concrete towers increased significantly over the last five years rising from $450-$500 per square foot to $650 per square foot as of fall 2020.[4] Based on the rising market for downtown development, staff see limited benefit in continuing to provide the same tax exemptions for future development in Tax Incentive Area 2 where a number of large projects are underway. However, Tax Incentive Area 1 (Leon and Lawrence area) of Downtown has not seen the same level of investment and would still benefit from incentives to attract development. Similarly, Tax Incentive Area 3 in Rutland has not attracted commercial or strata residential development and would also benefit from on-going incentives to attract investment. Therefore, staff recommend Downtown Tax Incentive Area 2 be adapted to better align with community and council priorities.

Staff recommend the following changes to Tax Incentive Area 2 in the Downtown

- Update Bylaw 9561 to change the conditions for residential, mixed-use or office developments in Tax Incentive Area 2 in the Downtown to receive a 10-year revitalization tax exemption.
- Provide 100% revitalization amount for projects of 40,000 square feet or greater where they achieve the highest level of the Energy Step Code for Part 3 Buildings (Step 4 - wood-frame residential; Step 4 - concrete residential; and Step 3 - commercial).

In the Downtown, exemptions within Tax Incentive Area 2 in the Downtown would continue to be available; however, amendments would mean conventional residential strata, office and mixed-use projects would no longer be eligible for tax exemptions without demonstrating leadership in high performance building via Energy Step Code. Through these updates to the RTE Bylaw Program the City could simultaneously incentivize Downtown development, green building, and climate action.

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[4] The HM Commercial Report Fall 2020

Conclusion:
Subject to council approval, staff would bring forward a report in 2021 with proposed amendments to the RTE Program bylaw for Downtown Tax Incentive Area 2. The amendments to the RTE Program bylaw would adjust the requirements for Downtown Tax Incentive Area 2, introducing Energy Step Code objectives. This approach would encourage greater uptake of green building in the City's Downtown, supporting the growth of Kelowna's green economy. In conclusion, the RTE Program continues to be an important tool to encourage rental housing development and offers potential to incentivize green building and support Energy Step Code implementation.

Internal Circulation:
Policy and Planning
Revenue
Development Planning
Real Estate

Legal/Statutory Authority:
Community Charter, Division, Section 226

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

Kelowna Community Climate Action Plan
Action 2. The Energy We Use in Our Buildings – improving energy performance and reducing GHG emissions in new and existing buildings.

Submitted by:

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Approved for inclusion: J.M Long Range Policy Planning Manager