

Report to Council



Date: January 18, 2021
To: Council
From: City Manager
Subject: Affordable Housing Land Acquisition Strategy
Department: Policy & Planning

Recommendation:

THAT Council receives, for information, the report from the Policy & Planning Department dated January 18, 2021, with respect to the Affordable Housing Land Acquisition Strategy;

AND THAT Council direct the City Manager to consider budget requests relating to the Affordable Housing Land Acquisition Strategy as part of the 2022 budget deliberations.

Purpose:

To provide Council with information on an Affordable Housing Land Acquisition Strategy as part of the Healthy Housing Strategy implementation.

Background:

The Healthy Housing Strategy, developed under the broader vision of the Healthy City Strategy, was endorsed by Council in 2018. The Healthy Housing Strategy is a 5-year plan that was developed in alignment with the Journey Home Strategy to address Council's top priorities of homelessness and housing diversity.

One of the key directions outlined in the Healthy Housing Strategy is to improve housing affordability and reduce barriers for affordable housing. Specifically, the development of an Affordable Housing Land Acquisition Strategy (AHLAS) is identified as an action with an anticipated high level of impact on improving long-term housing affordability in Kelowna. As per Image 1, below, the development of an AHLAS would support the subsidized rental housing segment of the housing Wheelhouse.

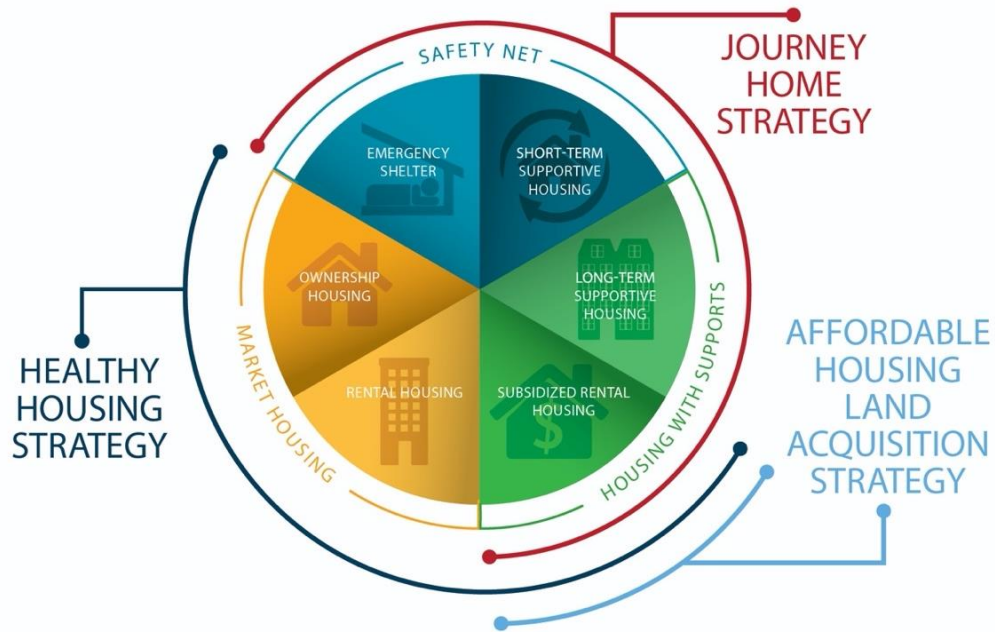


Image 1: an AHLAS will support the subsidized rental housing segment of the housing Wheelhouse.

There are multiple reasons that the AHLAS is focused on providing land for affordable rental housing specifically. Access to affordable rental housing was identified in the Housing Needs Assessment as a key area of concern. Addressing housing in the subsidized rental housing segment of the Wheelhouse will help to proactively support a segment of the population that may be otherwise vulnerable to experiencing homelessness and to alleviate pressures for other types of housing. While the City has seen substantial investment in market rental housing in recent years, there has been limited investment in affordable rental housing. Stakeholders have also consistently identified a lack of available land as a key roadblock to building more affordable rental housing, and non-profit organizations struggle to compete in the open market with developers.

The delivery of housing is generally a provincial responsibility; however, in light of growing housing challenges, local governments have continually taken on more of a role in this critical area. The purpose of establishing an AHLAS is to provide a strategy for how the City can fund and optimize land acquisition for affordable housing and contribute to impactful partnerships in a timely manner. Specifically, the City works closely with BC Housing to provide affordable housing, and the AHLAS will help to support this relationship and resulting positive community outcomes. Overall, when local governments provide land for affordable housing projects, it acts as a catalyst for investments in the community by partners and other levels of government.

At this time, the City regularly acquires land for parks, transportation and other critical investments, each of which is supported by a strategic plan and funding mechanisms. Land acquisition for affordable housing, however, has lacked a strategic plan to guide funding allocation and to allow for land to be acquired at a stable rate. The establishment of an AHLAS will help to address this gap. A discussion paper supporting the development of an AHLAS was completed by a consultant¹ in early 2020, and findings, recommendations, and budget considerations are summarized below.

Discussion:

¹ Discussion paper prepared by Juliet Anderton Consulting Inc.

An AHLAS provides several important benefits in addressing the challenges presented by our local housing market and contributes to increasing the amount of affordable rental housing in Kelowna. The following sections describe current housing market conditions, social return on investment in affordable housing, existing mechanisms to support land acquisition for affordable rental housing, current and projected need for affordable rental housing, and land acquisition site selection criteria. A funding strategy for land acquisition is also recommended.

Housing Market Conditions

As home ownership becomes more out-of-reach for many residents, rental housing is likely to play an increasingly important role in providing stable housing in Kelowna. Between 2011-2016, 73% of new households in Kelowna were renter households compared to 32% in the previous five years. Additionally, rental housing is becoming more expensive, with market rents in Kelowna rising between 7% and 10% annually from 2016 to 2019.

Social Return on Investment

The City can expect to see multiple positive impacts by establishing an AHLAS and providing additional land for affordable housing projects. This includes benefits to residents of affordable housing projects, such as enabling people to focus on employment, participate more easily in the community, and be mentally and physically healthier. Broader community benefits include increasing people's disposable income to spend in the local economy and generating jobs in the construction industry. Additionally, establishing an AHLAS could help make Kelowna more attractive to employers and job seekers as access to affordable housing makes it easier to recruit and retain workers and address labour shortage challenges. Overall, for every dollar invested in supporting affordable housing, it is estimated that between two and three dollars in social and economic value is generated.

Existing City Mechanisms to Support Affordable Housing

Kelowna currently has three key programs that support multiple unit housing development:

- **Housing Opportunities Reserve Fund (HORF):** this fund was established in 2002 and is used to purchase land for affordable housing projects.
- **Rental Housing Grants:** this program was established in 2006 to provide financial assistance for rental housing projects by off-setting Development Cost Charges.
- **Revitalization Tax Incentives:** this program was established in 2006 to provide 10-year exemptions to municipal property tax increases associated with redevelopment improvements.

Current and Projected Housing Needs and Costs

Households spending more than 30% of their annual income on housing are classified as being in core housing need, and households spending more than 50% of their annual income on housing are classified as being in extreme core housing need. Table 1, below, provides the income thresholds for different types of rental housing in Kelowna, based on 2019 average rental rates. For example, a household with an annual income of \$45,000 would, at most, be able to afford a one-bedroom rental apartment before falling into the core housing need category.

Based on the 2016 Census, over 30,000 people in Kelowna over the age of 15 earned less than \$20,000 a year. At 2019 rental rates, for single-person or single-parent households, even a bachelor suite is out of reach without spending more than 50% of their income on housing.

Table 1: household income threshold by unit type, based on 2019 average annual rents in Kelowna.

	Average Annual Rent	Income Threshold – Rent at 30% of Income	Income Threshold – Rent at 50% of Income
Bachelor	\$11,616	\$38,720	\$23,232
One Bedroom	\$12,996	\$43,320	\$25,992
Two Bedroom	\$16,356	\$54,520	\$32,712
Three Bedroom	\$19,848	\$66,160	\$39,696
Average	\$14,412	\$48,040	\$28,824

In 2021, it is estimated that Kelowna has approximately 19,600 rental households. Of all rental households, approximately 9,200 are in core housing need with 4,150 in extreme core housing need. By 2031, it is projected that an additional 2,600 households will be in core housing need, 1,265 of which will be in extreme core housing need. The demand for rental housing is expected to continue trending upward for the next 20 years and beyond.

To provide land for affordable rental housing to meet the demand from those in core and extreme core housing need in Kelowna, significant investment would be necessary. To address 100% of the growing need for affordable housing over the next 10 years, it is projected that the City would need to provide 2,575 units, requiring 1.83 million ft² of land at an estimated total cost of \$204M (\$20.4M/year)². The City’s investment in land for affordable housing is an important part of the long-term solution; however, the magnitude of total need is beyond the ability of the City to fund. For the foreseeable future, it is necessary that the private sector, non-profit sector, provincial government, and federal government continue to fund a significant share of investment in affordable housing initiatives.

Site and Location Selection

To realize community benefits through strategic investment in lands for affordable rental housing projects, staff recommend that land acquisition aligns with the guiding principles outlined in the City of Kelowna Land Strategy that was established in 2018. Additionally, staff recommend key considerations specific to land for affordable housing projects including acquiring land that:

- Can support a target of approximately 40 housing units;
- Is in a location that will allow future residents to also keep their transportations costs low i.e. mixed-use, pedestrian-, cycling- and transit-oriented neighbourhoods;
- Is in an appropriate proximity to services and amenities such as public transportation, shopping, park space, etc.; and
- Balances the distribution of affordable housing across Kelowna’s Core Area and Urban Centres.

Conclusions and Key Recommendations

The report highlighted eight conclusions and key recommendations as the City of Kelowna works to further develop an AHLAS (Table 2).

Table 2: conclusions and key recommendations.

1.	Increase contributions from general taxation	See funding strategy section below
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² Based on providing 100% of land for housing for all new residents from 2021 – 2031 that would be spending more than 30% of their income on rental housing. Based on a 10-year average of \$111/ft² for land; costs assumed to increase by 6%/year.

2.	Establish an internal City team to support land acquisitions relating to housing	Bring together representatives from City departments such as Policy & Planning, Real Estate, Financial Services and Social Development to identify and prioritize opportunities for land acquisition for emergency shelters, housing with supports and affordable rental housing
3.	Engage with partners responsible for implementation	As the City does not directly develop or operate housing, work to understand the needs of those responsible for implementation
4.	Maximize affordability for households	Consider the cost of housing and transportation together to ensure that housing is truly affordable
5.	Distribute and integrate affordable housing	Consider the distribution of affordable housing across Kelowna's Core Area and Urban Centres, while balancing the need for proximity to services and amenities
6.	Maximize outcomes from reserve funds	Maximize acquisition through creative site selection, lot assembly, leveraging other City needs, and using existing City-owned land
7.	Consider community engagement requirements	Ensure that information and education is provided to the community to foster positive relationships and promote acceptance for affordable housing projects and the citizens they serve
8.	Balance short-term and long-term results	Look to acquire both "shovel ready" land as well as smaller parcels for long term lot assembly

Funding Strategy

To provide additional funding for land for affordable housing in Kelowna, staff suggest increasing the annual Housing Opportunities Reserve Fund (HORF) contribution from general taxation by \$200,000, for a total contribution of \$400,000 in 2022. In 2023, staff recommend increasing this contribution to \$600,000 annually and to contribute \$600,000 annually in subsequent years. This funding strategy would result in \$2.2M being generated every four years, which would be adequate to fund land acquisition for at least one affordable housing project every four years.

While alone, this investment will only help a small number of Kelowna residents achieve affordable housing, investing in land acquisition for affordable rental housing will leverage other sources of revenue and further investment from our affordable housing and government partners. It should also be noted that staff will monitor the level of investment from our government partners and adjust budget requests accordingly.

In addition to funding from general taxation, Online Accommodation Platforms (OAP), such as Airbnb, are subject to the Municipal and Regional District Tax (MRDT), which may be used to support affordable housing. Staff recommend that funds available for land acquisition from OAP revenues continue to be used to supplement the HORF as this will increase the number of housing units created. As an example, the City recently used HORF and OAP funds to acquire land in an Urban Centre which is proposed to support an affordable housing project with approximately 40 units while meeting several other municipal objectives. A separate component in HORF has already been created to accumulate OAP revenues. Additionally, the City submits annual Affordable Housing Plans to the Province to permit OAP revenues to be used for affordable housing initiatives, including land acquisition.

Conclusion:

There is an ongoing need to provide land for affordable rental housing projects to support Kelowna residents in core and extreme core housing need. The implementation of an AHLAS is a key initiative

that will support Healthy Housing Strategy goals. Specifically, the AHLAS will allow the City to help address land acquisition, which is a key barrier in affordable housing projects, and will act as a catalyst to encourage investments from our partners.

Overall, land acquisition for affordable housing will be a key tool to express the City's leadership. The availability of land has the potential to initiate new affordable housing projects, attract development and operational partners, and leverage external financial resources. In conclusion, staff are asking Council to receive this report for information and to recommend that staff bring forward items related to the AHLAS for budget consideration in 2022.

Internal Circulation:

Real Estate Services
Business and Entrepreneurial Development
Social Development
Communications
Finance

Considerations applicable to this report:

Existing Policy:

Official Community Plan goal:

Address Housing Needs of All Residents. Address housing needs of all residents by working towards an adequate supply of a variety of housing.

Official Community Plan objectives:

- 5.9 and 10.3 – Support the creation of affordable and safe rental, non-market and/or special needs housing

Official Community Plan policies:

- 5.22.11 and 7.3.1 – Housing Mix
- 10.3.1 – Housing Availability
- 10.3.2 – City-Owned Land
- 10.3.4 – Use of the Housing Opportunities Reserve Fund

Financial/Budgetary Considerations:

To fund land acquisition for affordable housing, this report proposes a funding strategy that includes \$400,000 - \$600,000 in annual contributions to the Housing Opportunities Reserve Fund (HORF) from general taxation. Additionally, this report recommends that funds available for land acquisition from Online Accommodation Platform revenues also continue to be added to the HORF.

Considerations not applicable to this report:

Legal/Statutory Authority

Legal/Statutory Procedural Requirements

External Agency/Public Comments

Communications Comments

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