

Report to Council



Date: August 22, 2016
File: 0710-40
To: City Manager
From: Ross Soward, Planner Specialist
Subject: Housing Policy Options

Recommendation:

THAT Council receives for information, the report from the Planner Specialist dated August 22, 2016, identifying strategies to encourage housing diversity in Kelowna;

AND THAT Council directs staff to prepare the amendments to the Rental Housing Grants Council Policy No. 335 and Housing Opportunities Reserve Fund Bylaw No. 8593 as described in the report from the Planner Specialist dated August 22, 2016;

AND THAT Council approves in principle a 2017 budget amendment of \$200,000 from the Housing Opportunities Reserve Fund to fund the Rental Housing Grants Program as described in the report from the Planner Specialist dated August 22, 2016;

AND FURTHER THAT Council directs staff to prepare the amendments to the RM5 - Medium Density Multiple Housing zone as described in the report from the Planner Specialist dated August 22, 2016.

Purpose:

To provide policy options to encourage more housing diversity in Kelowna.

Background:

The availability of affordable, secure and suitable housing options for all residents is a continuing challenge, and demand will increase as Kelowna continues to grow. Although market demand largely controls the availability and affordability of housing, the City can have a positive impact by implementing policy changes and grants to aid in the creation of additional housing options.

This report responds to the growing recognition that a lack of rental housing - and specifically family-friendly rental units - is having an impact on the quality of life for Kelowna residents and for those moving to our community. The report identifies policy strategies that could support the development of more family-friendly rental housing.

As of May 2016 the average purchase price across all housing types exceeded the previous peak of 2008, with the average price of a single detached dwelling being \$604,751 in 2016 compared to \$543,308 in 2008. With ownership housing increasingly more difficult to obtain, more households are looking for rental housing, which puts additional pressure on the limited supply of rental units. Recent CMHC reports estimate the rental vacancy rate at 0.7%, falling well short of the goal of a 3% target identified in the 2030 Official Community Plan (OCP). Further, the vacancy rate for three-bedroom rental units is essentially 0%.

Over the last twelve months the market has responded to the low vacancy rate with a number of rental housing projects under construction or in the process of obtaining building permits. Based on a preliminary scan, there are over 1,048 purpose-built rental housing units that are either under construction or anticipated to be under construction in 2016/17. The incentives the City has put in place (rental housing grants, purpose-built rental housing revitalization tax exemptions, DCC exemptions for micro-suites) are supporting the recent upswing in purpose-built rental housing starts. The true impact of this wave of construction will not be known until at least 2018; however, it is a positive trend that goes well beyond our OCP target of 300 new purpose-built rental units per year.

Although there are a considerable number of rental housing projects at various stages of completion, many of these projects are comprised of one-bedroom and two-bedroom units. Very few of these projects are incorporating any family-oriented units (e.g. three bedrooms, or ground-oriented). Staff estimate that fewer than 50 of the 1,048 units would be family-oriented three-bedroom units, offering limited relief given the current 0% vacancy rate for three-bedroom units. At the same time, the increasing cost of single detached housing in Kelowna is making the traditional single family home more difficult for families in Kelowna to achieve, reinforcing the importance of encouraging rental housing for families.

Discussion of Housing Affordability Actions

Rental Housing Grants

The Rental Housing Grants Program is one of the city's primary tools to encourage the development of purpose-built rental housing, providing grants of up to \$5,000 per unit that go towards offsetting the Development Cost Charges (DCC) on eligible projects. The annual grants program disburses up to \$320,000 from annual budget allocation.

Given the current demand for rental housing in Kelowna, staff have identified several components of the program that could be strengthened. Currently, the grant amounts are determined based on the number of units associated with each project with no regard for the size of the unit. For example, a project with 30 three-bedroom units would receive the same grant as 30 one-bedroom units, even though it costs considerably more to build a three-bedroom unit. By adjusting the funding distribution for different unit types the grant amounts

will more accurately reflect the costs of development, while providing an incentive for the development of family-friendly rental units.

The other area that staff believe can be enhanced relates to the overall pool of funding available for rental housing grants. The most recent intake for rental housing grants included 329 units within six projects. Due to the high level of interest in the program, the funding per dwelling unit was roughly \$950, well under the maximum of \$5,000 per unit. In recognition of the current rental housing challenges, the budget of the rental housing grants is recommended to be increased as a temporary measure for two years. By shifting additional funding from the City's Housing Opportunities Reserve Fund (HORF), the overall amount of funding could be increased to enhance the impact of the grants on the development of much needed rental housing.

Response

To strengthen the rental housing grants program staff have identified two actions. The maximum funding amounts could be changed from \$5,000 per dwelling unit to allow for a tiered funding approach based on the number of bedrooms per unit (see table below). In addition, a weighted ranking is proposed in cases where the program is oversubscribed, ensuring that larger three-bedroom units receive a greater proportion of funding. The increase in the maximum funding for three bedroom units reflects the higher costs associated with building larger units in an effort to encourage the development of family-friendly units.

Proposed Maximum Funding Disbursement for Dwelling Units

Unit Type	Maximum Funding	Weighted Ranking
One Bedroom	\$2,000	0.25
Two Bedroom	\$4,000	0.5
Three Bedroom	\$8,000	1.0

The other proposed change to the rental housing grants program is to increase the overall amount of funding available for a two-year term. Staff are recommending that an additional \$100,000 be allocated from the HORF for the 2017 and 2018 rental housing grant funding cycles. This would increase the amount of funding available for rental housing grants to \$420,000 annually for the next two years to support the housing sector in its efforts to address the low vacancy rates and take advantage of the low interest rates and strong population growth in Kelowna.

Six Storey Wood Frame Construction

The BC Building Code allows for wood frame construction up to six storeys and Kelowna's 2012 Housing Strategy adopted a recommendation to amend the zoning provisions to accommodate this type of development as a more affordable construction and choice for apartment housing. The purpose of the RM5 - Medium Density Multiple Housing zone is to provide for medium density apartments, and the maximum height is currently four and one half storeys. Allowing up to six storeys for RM5 developments in Urban Centres (Downtown, Pandosy, Landmark/Mid-town, and Rutland) could encourage additional residential growth and

intensification in these areas without significantly impacting lower density neighbourhoods. An amendment to the zone, consistent with the Housing Strategy recommendations, would also consider how to limit massing on upper floors to ensure increased height does not impact surrounding neighbourhood.

Other Considerations

In addition to the actions described above, other possible policy amendments will require further analysis and consultation before arriving at recommendations. Staff will explore additional options and conduct focused stakeholder engagement through a housing review in support of the upcoming OCP update and through other projects (the *Healthy City Strategy*, *Healthy Housing* theme area).

Future initiatives that may be considered include:

- Density benefits for affordable housing and/or special needs housing to provide for the greatest housing needs.
- Family friendly housing policies to encourage more ground-oriented three-bedroom units near appropriate amenities such as schools and parks. Recommendations from the ongoing *Community for All Ages Plan* are expected to inform direction for this item.
- Area-specific housing considerations in the individual Urban Centre Plans, including population and demographics, housing types and densities, and supporting amenities.
- Provisions to increase the maximum height for apartment housing or mixed use developments in the C4 - Urban Centre Commercial zone to six storeys. An upcoming review of the C4 zone will address these changes.

Conclusion and Next Steps

Staff recognize the need for immediate action on the issue of housing affordability as well as the importance of developing policy and procedures that will be in the long-term interest of the community. To address the immediate need for increased rental housing, staff recommend that:

- 1) The Rental Housing Grants Council Policy No. 335 and Housing Opportunities Reserve Fund Bylaw No. 8593 be amended to reflect the discussed changes to funding disbursement
- 2) There be a temporary increase to the program, of \$200,000, funded from the HORF over the next two years.
- 3) RM5 height amendments be brought forward to Council in support of medium density housing projects in Urban Centres.

In the case of other policies or zoning regulations to improve housing affordability, it is important to better understand the market impacts of this in Kelowna to determine the feasibility and effect of potential strategies. Accordingly, staff will investigate other options as part of the upcoming housing review, involving stakeholders and community partners. As

more immediate actions, staff recommend the preparation of amendments required for Council endorsement to support the RM5 amendments and Rental Housing Grants Policy updates.

Internal Circulation:

Divisional Director, Community Planning & Real Estate
Director, Real Estate Services
Department Manager, Community Planning
Department Manager, Policy & Planning
Director, Financial Services
City Clerk
Consultant, Community Engagement

Legal/Statutory Authority:

Local Government Act Sections 473(1)(a), 473(2) and 563

Legal/Statutory Procedural Requirements:

Housing Opportunities Reserve Fund By-law No. 8593

Existing Policy:

2030 Official Community Plan

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

Policies 10.3.1, 10.3.2, 10.3.3 & 10.3.4

Rental Housing Grants Council Policy No. 335

Financial/Budgetary Considerations:

Current Budget for Rental Housing Grants

Annual Budget Allocation to Rental Grants in the form of DCC credits	\$120,000
Annual Budget Allocation to Rental Grants	\$200,000
Total Funds Available	\$320,000

Proposed funding for the annual intake of the program over the next two years:

Annual Budget Allocation to Rental Grants in the form of DCC credits	\$120,000
Annual Budget Allocation to Rental Grants	\$200,000
Proposed Annual Appropriation from HORF	\$100,000
Total Funds Available	\$420,000

The Proposed Appropriation from the Housing Opportunity Reserve Fund will be processed as a budget amendment in 2017 upon Council endorsement of this report.

Personnel Implications:

Any changes to the Council Policy No. 335 would have implications for how the City disburses rental housing grants moving forward. Also, in order to ensure updates to the Council Policy take effect for the 2017 intake, the deadline for the rental housing grants will be adjusted from September to November 2017.

Submitted by:

Ross Soward, MCIP, RPP
Planner Specialist, Policy and Planning

Approved for inclusion:



J. Moore, Acting Department Manager, Policy & Planning

Attachments:

Attachment 1: Rental Housing Grants Council Policy No. 335

Attachment 2: Housing Opportunities Reserve Fund Bylaw No. 8593

cc:

Divisional Director, Community Planning & Real Estate

Director, Real Estate Services

Department Manager, Community Planning

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City Clerk

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