

Report to Council



Date: January 23, 2023
To: Council
From: City Manager
Subject: Housing Affordability Overview
Department: Policy & Planning

Recommendation:

THAT Council receives, for information, the report from Policy & Planning, dated January 23, 2023, regarding housing affordability.

Purpose:

To provide Council with an overview of housing affordability in Kelowna, including the City’s approach to addressing it.

Background:

The intent of this orientation session is to provide Council with background and context for issues related to housing in Kelowna, and an opportunity to review the City’s current approach and planned activities.

Housing affordability broadly speaking is a complex problem to which no local government has found a singular “one-size-fits-all” solution. Instead, each local government is working within their own unique context to address an issue that has become one of the most pressing challenges facing our communities, and our country. Indeed, the ability for local residents to afford safe, adequate homes is a cornerstone of a healthy community. Yet, in many jurisdictions – local, provincial or national – it is recognized that our housing system is in crisis.

As part of Canada’s fastest growing metropolitan area, Kelowna is continuing to struggle with housing affordability. Between 2016 and 2021, the city’s population grew by over 13%. However, housing supply is responding to increased demand. Over the past five years, the City has issued permits for over 11,500 new homes. Of these, a growing share have been multi-unit (78% in 2022), and located near transit and amenities (78% in 2022). Rental housing has also been a major source of new homes. The full impact of these units on the housing system has not been seen, as many are still under construction.

The following report will provide a brief overview of the state of housing affordability in Kelowna followed by a review of the City’s current policy directions, as well as recent and planned actions.

Often, the terms 'housing affordability' and 'affordable housing' are confused. For clarity, when the term 'housing affordability' is used in this report, it refers to the ability for local residents to afford their homes, not to a particular form of housing. To avoid confusion, 'non-market' or 'supportive housing' will be used instead 'affordable housing'.

Discussion:

The high cost of housing locally is a frequent subject of discussion among residents and in the news media. Monthly mortgage costs for the average detached home sold in Kelowna in 2022 would exceed \$6,000, and the average monthly cost for a condo sold in 2022 would be nearly \$3,000. For comparison, the average Kelowna household earned \$105,300 in 2020. At this level, monthly mortgage cost alone (excluding other shelter costs) for a condo would occupy 34% of their pre-tax income and 41% of their after-tax income, suggesting that the average household would be hard pressed to afford ownership housing.

Rental rates provide little relief. Due to a vacancy rate below 1%, costs for a 1-bedroom apartment average \$1,817 per month, and 2-bedroom units rent for an average of \$2,580 per month. The low vacancy rates in the rental market and the corresponding high costs have cascading impacts through our housing system, leading ultimately to elevated levels of homelessness and shelter use.

More recently, in response to elevated inflation levels, the Bank of Canada has sharply increased interest rates from historic lows. This action has had dramatic impacts on the housing system by increasing the cost of borrowing, affecting both prospective home buyers as well as home builders and developers. The ripple effects of these changing dynamics are still making their way through the system. The housing market has certainly changed, but it is too early to tell whether it will result in improved affordability.

These figures should not obscure the work of previous staff and Councils and across the housing sector. Kelowna has long been a leader in working to address housing affordability. The City was an early adopter of secondary suites and carriage homes, and has pushed that success forward into the new forms of missing middle housing. Incentives provided by the City have assisted in generating unprecedented thousands of new market rental homes, with over 5,000 units in various stages of the approval process currently. The City has worked to create one of the most streamlined development processes in the province, and has delivered a multitude of successful partnerships with BC Housing to provide hundreds of affordable homes across the community. Our housing affordability challenges would be more severe if these actions had not been taken. Nevertheless, given the persistence of our housing affordability challenges, staff suggest that further action is still required.

Housing Approach

The City's housing approach begins at the regional level, recognizing that the local housing market interconnected regionally. At the municipal level, staff are working with direction from multiple policy drivers described in Table 1 below. This work is grounded in the foundations described in Appendix A.

Table 1: Current Policy Directions

Driver	Key Directions
Imagine Kelowna Long-term community vision	<ul style="list-style-type: none"> - Build healthy neighbourhoods that support a variety of households, income levels and life stages - Everyone in our community should be able to find stable and appropriate housing
OCP 2040 20-year growth management plan.	<ul style="list-style-type: none"> - Increase the diversity of housing types and tenures to create inclusive, affordable, complete communities - Support land acquisition to partner for affordable housing - Protect the existing rental stock and limit the impacts of displacement
Healthy Housing 5-year housing strategy	<ul style="list-style-type: none"> - Promote and protect rental - Improve housing affordability and reduce the barriers for affordable housing - Build the right supply (right type, right price, right location) - Strengthen partnerships and align investments
Journey Home City's strategy to address homelessness	<ul style="list-style-type: none"> - End chronic and episodic homelessness - Introduce measures to prevent homelessness in the first place - Implement a coordinated systems approach to homelessness

Following this policy framework, a few key upcoming projects are highlighted below in Table 2. The projects vary in scale and timeline and are divided into three primary categories: (1) *policy drivers* that set broader direction and identify necessary actions, (2) *regulation and process improvements* that will help to set a productive environment for housing development, and (3) *partnerships* that allow the City to leverage its resources and catalyze investment in the community to further the City's housing objectives.

Among these projects, the Housing Needs Assessment (HNA) offers an important opportunity to recalibrate the City's approach to the changing conditions of the housing system. The HNA will deliver a comprehensive estimate of existing and future housing needs (types, tenures, affordability, priority populations) and will set the groundwork for clear targets and measures. It will provide the strong foundation of information on which to set out new directions for the City's housing work over the next several years.

Table 2: Selected upcoming projects

Focus Area	Title	Description	Timeline
Policy Drivers	2023 Housing Needs Assessment	Detailed analysis of the specific housing needs within the community, including establishing targets to direct action	Medium-term (6-7 months)
	Updated Housing Strategy (2023-2027)	An action-oriented strategy that establishes how the City will achieve its housing targets	Long-term (12-18 months)
Regulation / process improvements	Infill Options (Accelerating Missing Middle Housing)	Expand missing middle housing in the city's Core Area by implement pre-zoning and associated process improvements	Medium-term (7-9 months)
	Zoning Bylaw Implementation	Continue to implement and monitor the new density bonus for affordable housing and pre-zoning of Urban Centres	Ongoing
	Rental Incentives Review	Review and update the City's rental incentives, including grants and tax exemptions	Short-term (1-3 months)
	Secondary Suites Expansion	Expand permissions for secondary suites to align with Building Code changes	Short-term (1-3 months)

Partnerships	Housing Supply Act	Work with the province to meet the legal obligations under the new Housing Supply Act, including potential regulatory and process changes	Ongoing
	Public Lands Inventory Assessment	Inventory and review of publicly owned land to identify opportunities to support affordable housing in partnership	Medium-term (3-6 months)
	Affordable Home Ownership Program	Work with BC Housing to enable local developments to access incentives to build affordable ownership housing	Short-term (1-3 months)

Conclusion:

Housing affordability is a critical issue and other levels of government have identified this as a key priority, resulting in changes to regulations and investment. For the first time, there are dedicated housing ministers at the federal and provincial levels. Each of those levels of government is increasing their commitment to addressing the issue, in recognition of its central role in creating a healthy community, province and country. The City has a long history of progressive and pro-active housing actions in *policy, regulation and process improvements*, and *partnerships*. Some actions will have near-term impacts, while others will take many years to yield results. Long-lasting, systemic change will require consistent and dedicated effort in all of these areas. This year will present Council a unique opportunity to take a fresh look at our approach to housing to set a renewed strategy for years to come and take bold action on an issue that is critical to our community wellbeing.

Considerations not applicable to this report:

- Legal/Statutory Authority*
- Legal/Statutory Procedural Requirements*
- Existing Policy*
- Financial/Budgetary Considerations*
- External Agency/Public Comments*
- Communications Comments*

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Approved for inclusion:



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Attachments:

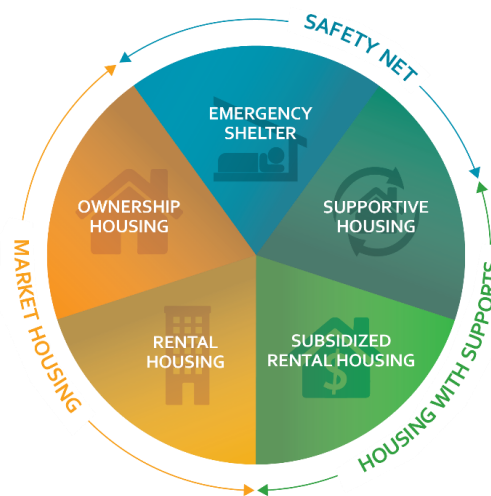
Appendix A – Housing Policy Foundations

Appendix A

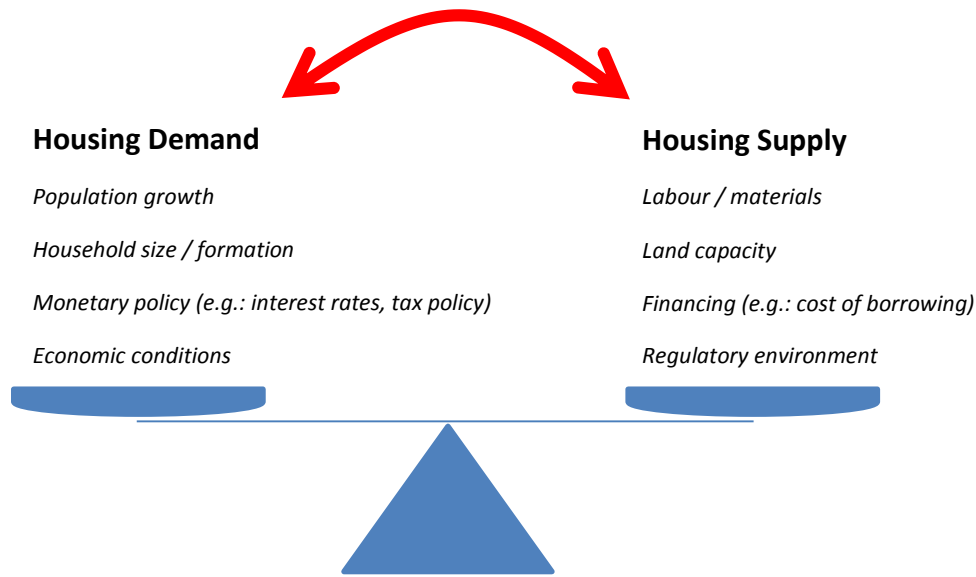
Housing Policy Foundations

Three key foundations to the housing system are described below.

1. **Housing is a System** – The City’s Wheelhouse graphic (shown below) aims to depict this system, making it clear that each segment of the housing system is connected to the rest. An action taken to target one area will have ripple effects through the others. This interconnection is implicit in the function of the system, but it is also borne out in our lives: most residents will move between different segments of the Wheelhouse during their lifetimes. That is entirely normal and healthy. In fact, the inability to move between segments is a major indicator of a system in crisis.



2. **Housing is a Market** – The housing system also functions as a market with two dynamic forces: demand and supply. Each of these forces is highly complex, with a wide range of inputs (see illustration below) and effects on the housing system. But, at the core, if not enough housing is being built to meet demand, competition will increase and prices will go up. Kelowna is an extremely desirable city and that is a double-edged sword. It likely means that there will always be a strong demand to live here and to access the amenities enjoyed by residents. Knowing this, housing affordability – and the balance between supply and demand – will need to be monitored closely.



3. **Jurisdiction** – Responsibility for the housing system is not clearly defined in any Canadian law. Instead, the roles played by federal, provincial and local governments have varied over time. For the foreseeable future, tackling housing affordability will continue to require deep collaboration and concerted effort from all parties. For local governments, this means maximizing the use of all the tools available in partnership. Despite the need for collaboration, there are some defining features that each level of government brings to the housing table. Some of the key tools used by each level of government are described in the table below.

Level of Government	Common Tools
Federal Government	<ul style="list-style-type: none"> - Tools that impact both supply and demand - Guided by the National Housing Strategy and the Minister of Housing - Set immigration targets (demand) - Monetary and tax policy (demand) - Mortgage insurance (supply) - Funding programs (supply)
Provincial Government	<ul style="list-style-type: none"> - Tools that impact both supply and demand - Guided by the Homes for BC strategy and the new Minister of Housing - Tax policy, e.g.: speculation tax (demand) - Rental regulations (supply) - Funding programs (supply) - Direct housing delivery (supply)
Local Government	<ul style="list-style-type: none"> - Tools that focus mostly on supply - Guided by the Official Community Plan and Healthy Housing Strategy - Growth management planning (supply) - Development regulation and approvals (supply) - Incentive programs, e.g.: tax exemptions, grants (supply) - Short-term rental regulations (demand)