

Report to Council



Date: February 5, 2024
To: Council
From: City Manager
Subject: Middle Income Housing Partnership
Department: Policy & Planning, Real Estate Services

Recommendation:

THAT Council receives, for information, the report from the Policy & Planning Department, dated February 5, 2024, respecting the City’s role in supporting below-market housing;

AND THAT Council direct staff to work with the Province’s anticipated BC Builds program to bring forward a future partnership project opportunity;

AND FURTHER THAT Council direct staff to proceed with the Middle Income Housing Partnership program as described in the report from the Policy & Planning Department, dated February 5, 2024.

Purpose:

To consider a new initiative to use City-owned land in partnership to build more housing at below-market rates, and to support the use of 3 city-owned sites as an initial test of the program.

Council Priority Alignment:

Affordable Housing

Background:

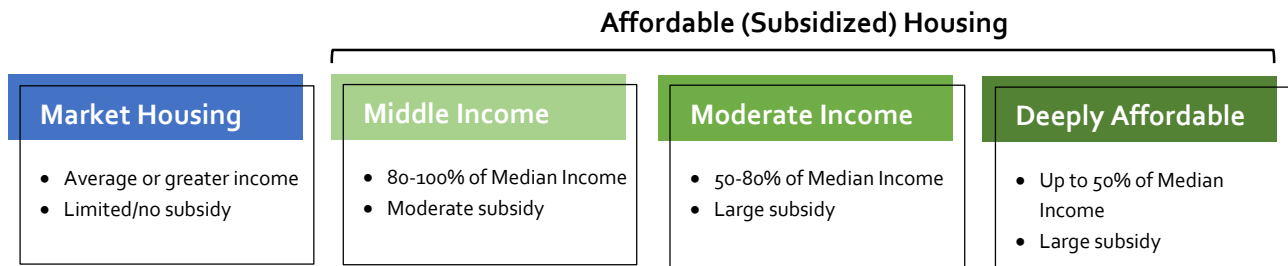
The 2021-2031 Kelowna Housing Needs Assessment (HNA) outlined several key findings. Among these, the most significant challenge facing the local housing system is the shortage of subsidized rental housing – that is, rental housing offered at below-market rates. In recent years, the rate of new subsidized housing being built in Kelowna has been approximately 45 homes per year. This compares to an estimated need of 450-640 homes per year. In short, the rate of subsidized home building is about ten per cent of what is needed.

This report explores a new model to increase the rate at which new subsidized housing is being built in Kelowna. Action in this area aligns with the following 2023-2026 Council Priority Actions:

- Acquire City-owned land to build affordable housing
- Increase the number of rental units with below market rents

'Subsidized housing' refers to housing that receives financial or other support (e.g.: land) that enables it to be offered at rates below market. Subsidies are commonly provided by all three levels of government (Federal, Provincial, Local) using a range of tools, such as access to low-cost financing, tax relief, and land partnerships. Subsidized housing can be offered as rental or ownership, and at varying prices, depending on the level of subsidy received. Where a project is heavily subsidized, it can be offered at rates lower than a project that only receives minimal subsidy (see Figure 1).

Figure 1: Subsidized Housing Breakdown



The City of Kelowna has a long history of successful partnership with BC Housing to deliver subsidized housing that is deeply affordable. Through this approach, the City has provided land, tax exemptions and regulatory incentives that have resulted in 320 homes offered at deeply affordable rates. Unfortunately, as pointed out by the HNA, the pace of these partnerships is not able to keep up with the level of need in Kelowna.

Increasing the number of subsidized homes built each year will require new thinking, expanded partnerships and significant investments in addition to continued work with BC Housing. Notably, these actions cannot be taken by the City alone; each level of government, the development industry, and non-profit housing providers will form part of the collaborative solution.

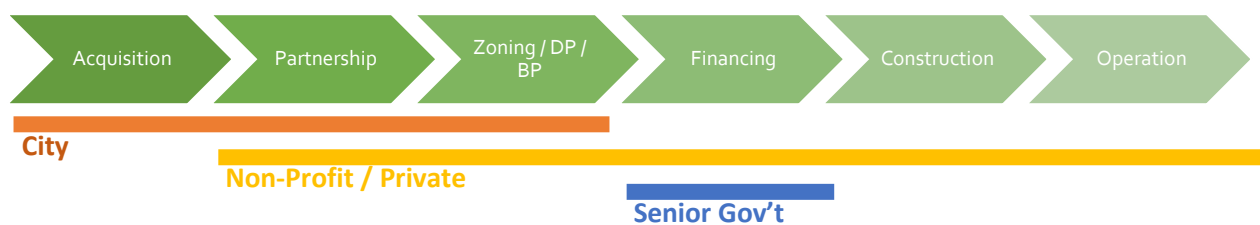
Discussion:

Local governments have multiple tools that they can use to support building subsidized homes. Among these tools, providing land at little to no cost is the most impactful. It has the largest financial impact on a project, allowing the greatest opportunity to reduce the cost of the resulting homes. However, this approach still relies on BC Housing to fund construction of the homes and to subsidize ongoing operational costs so that deeper levels of affordability can be achieved and maintained. The challenge that municipalities have faced is that the demand for partnership with BC Housing has far exceeded their capacity. Many communities, including Kelowna, have been left with land available to support subsidized housing, but no provincial partner.

Given the scale and urgency of the housing crisis, Staff are now recommending an expanded approach: establish new partnerships with non-profit and private sector housing providers to better meet our community's housing needs. This new approach will allow the City to take a leadership role in accelerating the pace at which new subsidized rental homes are being built in Kelowna.

This new approach (see *Figure 2*) leverages City land and incentives along with low-cost financing through senior government agencies (e.g.: Canada Mortgage and Housing Corporation) to offer new homes at below-market rates. Private or non-profit housing developers would enter into a long-term lease (~ 60-99 years) of City-owned land and work with senior government agencies to secure financing. These partners would then build and operate the housing for the term of the lease with an agreed-upon portion of the units at below-market rates. In the event of a change in partners, the City bears the risk of ownership and operations while new partners are put in place. Where sufficient, operating profits could then be shared between partners, and funds would be re-invested for further land acquisition or to deepen project subsidy. At the conclusion of the lease term, the land and the building would revert to City ownership.

Figure 2: New Subsidized Housing Model - Partnership Roles



Staff have completed a financial analysis to estimate the level of affordability that could be achieved under this model. While individual projects will vary considerably, the analysis suggests that the model could support prices at a minimum of 20 per cent below market for a minimum of 20 per cent of the units. Where possible, efforts will be made to increase the level of affordability.

Providing homes at 20 per cent below market will meet a significant share of the need for subsidized rental housing identified in the HNA, primarily for moderate to average-income households for whom market housing is out of reach. Approximately 1,800 such households (40 per cent of subsidized rental need) earning between \$42,500-\$87,000 would be eligible for the program. For this reason, staff are recommending that the program be called the Middle Income Housing Partnership (MIHP) program.

The model will not result in deeply affordable housing targeting households with low or very low incomes. An ongoing partnership with BC Housing through the Community Housing Fund (CHF) will still be necessary to meet this vital need.

Middle Income Housing Partnership – Program Financing and Operation:

The MIHP is not an overnight solution, but rather a long-term program that would sustain itself through capturing a percentage of ongoing operating revenues (where sufficient) and equity of housing projects to finance additional development opportunities. Project equity would grow over time as more and more projects are built and as financing commitments are paid down.

Staff anticipate that the first five years of the program can be funded through a combination of existing land assets and new acquisitions made using the Housing Opportunities Reserve fund and grant funding). Over the initial years of the program, staff will establish best practices and monitor program success, learning from the first projects "on the ground". Lessons learned can then be applied to develop a refined, long-term, sustainable financial plan for the program that will be brought to Council for consideration.

Under the MIHP, the typical process would follow the following steps:

1. The City would assess and prioritize land suitable for the development of affordable housing and acquire land using grant funding or housing opportunity reserve funding (HORF).
2. The City would take the land through the zoning process, should it be required.
3. The opportunity to develop the land would then be put out formally through the Expression of Interest process.
4. Staff would evaluate the submissions and would recommend a selection to Council.
5. Council would then make the final determination.

Phased Approach

Staff propose to advance this new initiative through a phased process to ensure the development of appropriate guidelines, legal frameworks and approval processes. This approach would provide the City with opportunities to ensure the prudent expenditure of housing funds, to protect the City's land assets, and to maximize housing outcomes.

Staff propose working towards the establishment of the MIHP through the following phases:

Phase 1: Identification of City lands & Guidelines for Expressions of Interest

Staff have conducted a review of City land assets and have identified 3 parcels as suitable candidates for initial test projects for the development of multi-family housing in the form of 4-6 storey apartments. These initial sites will be brought forward for Council consideration.

Using the Housing Needs Assessment and other information sources, staff will recommend specific housing priorities for the program to Council. In addition, staff will recommend a series of guidelines to be used when evaluating submissions for Expressions of Interest. Items such as level of affordability, development experience, operating experience, project financial plans will be considered.

Phase 2: Proposal Call and Review

Following Council endorsement of program objectives and Expression of Interest evaluation guidelines, staff will formally launch the Expression of Interest process. Submissions will be reviewed by staff in accordance with the guidelines for the program.

Phase 3: Selection

Following staff review, a recommendation will be brought forward to Council for consideration. If awarded, the successful proponent will begin the project development process.

Provincial and Federal Opportunities:

The MIHP comes at an opportune time. Both the Provincial and Federal governments are making new investments in housing and are looking for partnerships.

Housing Accelerator Fund: The City was the first community in the province to be awarded funding from the Housing Accelerator Fund (HAF), a \$4 billion dollar fund administered by CMHC to support housing supply at the Local Government level. Land acquisition funding is part of the City's grant application. This funding would enable the City to jumpstart the BMHP program with an initial investment from the HAF.

'Homes for People' Action Plan: The BC government released the Homes for People Action Plan in 2023. An important action in that plan is the launching of BC Builds, which aims to partner on public land to deliver homes for middle-income people. BC Builds has not yet been launched. Where possible, staff will explore potential opportunities for collaboration and alignment with BC Builds and all other Provincial housing programs.

Conclusion and Next Steps:

Kelowna is facing a major shortage of subsidized housing. Tackling a challenge of this magnitude will require new ideas and partnerships across the housing sector. The Middle Income Housing Partnership is one new initiative that can help. It would supplement the City's traditional partnerships, allowing the City to increase the number of projects it can support with land. It is not a silver bullet solution to the shortage, and it will not solve the housing challenges faced by low and very low income households; but, when combined with the City's other efforts and partnerships, the MIHP can play an important role – one whose impact will grow over time, providing a secure base of publicly owned homes that more residents can afford.

To advance the MIHP, the administrative team will begin Phase 1 of the process and will present for Council consideration several parcels of existing City-owned land which could be made available to the private and non-profit sectors at rates below the market value.

The City will continue investing in its long-standing partnership with BC Housing to support units with deeper levels of affordability. In addition, the forthcoming Housing Strategy Update will provide the entire housing sector with the opportunity to explore additional ways in which more subsidized homes can be built in our community.

Internal Circulation:

Real Estate Services
Social Development
Development Planning
Partnerships Office
Communications
Finance

Considerations applicable to this report:

Existing Policy:

2021-2031 Kelowna Housing Needs Assessment – the estimated total need for subsidized rental housing in Kelowna between 2021-2031 is 4,500 – 6,400 homes. This represents an annual target of 450-640 homes per year. The current level of subsidized housing construction is about ten per cent of that level.

2040 Official Community Plan Bylaw No. 12300 – Policy 4.12.4 City Land Acquisition. Focus land acquisition and housing partnerships in the Urban Centres, in addition to the Core Area, to support affordable rental housing near transit, services and amenities.

2018 Affordable Housing Land Acquisition Strategy (AHLAS) – established the initial framework to increase taxation investments in acquiring land for affordable housing partnerships.

2018 City of Kelowna Land Strategy 4.1 – The City will pursue partnerships with the private sector to achieve public benefits that cannot be achieved by the City acting alone.

Financial/Budgetary Considerations:

Using a combination of existing City-owned land assets and new acquisitions funded through grants (i.e.: HORF and Housing Accelerator Fund), it is expected that the first five years of the MIHP program can be funded. Learning from the initial projects built and occupied will enable staff to return to Council with a refined long-term financial plan. Careful long-term financial planning for the program will be an important tool to mitigate any risks associated with owning residential buildings over their full lifespan, ensuring that we are able to account for the full costs of operations, maintenance and ultimate replacement.

Considerations not applicable to this report:

External Agency/Public Comments:

Communications Comments:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

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