

Report to Council



Date: April 7, 2025
To: Council
From: City Manager
Subject: Revitalization Tax Exemption Program Updates
Department: Housing Policy & Programs

Recommendation:

THAT Council receives, for information, the report from the Housing Policy and Programs Department dated April 7, 2025 with respect to amendments to the Revitalization Tax Exemption Program Bylaw No. 12561;

AND THAT Bylaw No. 12758 being Amendment No. 3 to the Revitalization Tax Exemption Program Bylaw No. 12561 be advanced for reading consideration.

AND FURTHER THAT Bylaw No. 12777 being Amendment No. 4 to the Revitalization Tax Exemption Program Bylaw No. 12561 be advanced for reading consideration.

Purpose:

To consider amendments to the Revitalization Tax Exemption Program Bylaw No. 12561.

Council Priority Alignment:

Affordable Housing

Background:

The Housing Action Plan (HAP) aims to address the community’s pressing housing challenges across the interconnected segments of the housing system, referred to as the Housing Wheelhouse. Improvements in any segment of the Wheelhouse benefit the housing system as a whole. 26 individual actions have been identified as part of the HAP, including revising rental housing tax exemptions (Action 2.4).

The Revitalization Tax Exemption (RTE) program provides tax exemptions for purpose-built rental housing. Eligible projects can receive a tax exemption on the municipal portion of property tax attributable to the increase in property value resulting from development of a property for 10 years.

When the City grants an RTE for purpose-built rental housing, the Province also exempts the School Tax portion of property tax.

The aim of the RTE program is to meet the demand for rental housing by encouraging development of purpose-built rental housing projects. It supports the financial viability of rental projects by reducing operating costs for the first 10 years of the lifecycle of a rental project.

Council rescinded the previous Revitalization Tax Exemption Program Bylaw and introduced a new one on August 28, 2023. This introduced a variety of changes to the program, including removing the eligibility for ownership (strata) residential development, aligning the boundaries with the new Official Community Plan, delegation of some tax exemption agreements to the Divisional Director of Planning & Development, and through a later amendment adding a requirement for the Rental Only subzone. Since the new bylaw was adopted, the following RTEs applications have been submitted:

Issued	File #	Address	Units	Average tax impact per year	Total estimated tax impact over 10 yr term
15-Jan-24	RTE23-0010	2155 Mayer Rd**	122	\$75,415	\$754,150
15-Jan-24	RTE23-0009	3777-3779 Lakeshore Rd	128	\$58,475	\$584,750
15-Jan-24	RTE23-0012	1720 Richter St	132	\$99,420	\$994,200
04-Apr-24	RTE23-0014	1333-1341 Bertram St	157	\$95,916	\$959,165
04-Apr-24	RTE24-0002	169 Rutland Rd N	114	\$88,297	\$882,971
04-Apr-24	RTE24-0003	803 Lowland St	50	\$27,040	\$270,400
26-Apr-24	RTE23-0013	812 Saucier Ave	171	\$151,776	\$1,517,757
24-May-24	RTE23-0011	500 Asher Rd	127	\$92,985	\$929,850
09-Jul-24	RTE24-0006	1110 Lawson Ave	130	\$102,481	\$1,024,813
29-Aug-24	RTE24-0004	450 Montgomery	54	\$39,538	\$395,385
17-Oct-24	RTE24-0007	2124 Pandosy St	16	\$12,547	\$125,471
03-Dec-24	RTE24-0008	210 Sadler Rd	115	\$101,512	\$1,015,119
21-Jan-25	RTE24-0010	2110 Wilkinson St	107	\$72,656	\$726,563
In-stream	RTE24-0005	765 Badke Rd	120	\$109,864	\$1,098,642
In-stream	RTE24-0009	459 Osprey Ave	56	\$38,389	\$383,888
In-stream	RTE25-0001	1881 Barlee Rd	160	\$146,676	\$1,466,765
In-stream	RTE25-0002	1355 St Paul St	384	\$407,835	\$4,078,348
Total:			2143	\$1,682,433	\$17,208,237

** Non-market rental housing project

Discussion:

Staff recommend support for the proposed changes to the Revitalization Tax Exemption (RTE) program as outlined below. The proposed changes align with the City's Official Community Plan (OCP) and are an identified action in the Housing Action Plan (HAP). In addition to the major changes outlined below, minor changes to the bylaw to delete outdated sections and streamline administration are also proposed.

Proposed Program Changes

1. *Eligibility for co-operative housing*

It is proposed to add co-operative housing as an additional form of tenure that would be eligible for a tax exemption to help encourage new construction of this housing type. Co-op housing provides an alternative housing tenure which can provide long-term affordability, as without a profit motive, housing costs tend to be cheaper than comparable private market rentals. Staff are aware of three existing housing co-operatives in Kelowna consisting of 146 units. The most recent was constructed in 2001.

This change aligns with OCP Policy which encourages promoting underrepresented forms of tenure like co-ops.

2. *Additional Support for Non-Profit Rental Housing*

It is proposed to add a tax exemption for the land value of non-profit rental housing, in addition to the existing tax exemption for the value of improvements. This is expected to provide a benefit to non-profit rental housing between 10% to 50% additional tax impact per year.

When there is a legal restriction (e.g.: Housing Agreement) registered on the title of a non-profit rental housing property, BC Assessment applies a discounted assessment value to the improvements on that property, limiting the beneficial impact of an RTE.

3. *Expansion of Eligibility Boundaries*

It is proposed to increase the eligibility boundaries to the entire Permanent Growth Boundary. Currently, RTEs are limited to the City's Core Area and the University Village Centre.

Expanding the boundaries of the RTE program would incentivize rental housing projects in portions of the City that are not currently eligible, but are designated for multi-unit residential development, such as the Ponds Village Centre, Black Mountain Village Centre, Wilden, and McKinley Beach. These areas typically do not have many rental housing options. Despite the boundary expansion, as portions of the City outside the Core Area are generally not 'pre-zoned' for multi-unit residential development, Council approval would still be required through a rezoning process to the appropriate zone and associated Rental Only subzone.

4. *Implementation of a rental vacancy restriction*

It is proposed to suspend tax exemptions for new market purpose-built rental housing projects when the vacancy rate exceeds 4% for two consecutive years. This restriction would not apply to non-profit rental housing.

A vacancy rate of 3% to 5% is considered healthy. If the vacancy rate remains above 4% for two consecutive years, it is a sign that the rental housing market is healthy and does not require the same incentivization as it has in the past. If the vacancy rate is measured below 4% for a single year, new RTE applications would be accepted.

Additional Amendment

In addition to the general changes to the RTE program, it is proposed to add a transitional provision to allow a project that already has an Occupancy Permit to apply for an RTE. The developer of that project has raised concerns about application process issues that did not allow them to submit an application at the appropriate time. If the bylaw changes are approved, the specific application would be considered on

its own merits once an application has been received. Other projects that meet the criteria could also apply, for Council consideration.

Conclusion:

The RTE program is intended to support the financial viability of projects to meet the demand for rental housing. The proposed changes to the RTE program are intended to increase the impact of the program by adding additional forms of tenure, expanding eligibility, and increasing support for non-profit rental housing. The changes align with the Official Community Plan and are identified actions in the Housing Action Plan.

Internal Circulation:

Communications
Development Planning
Finance
Long Range Planning
Office of the City Clerk
Real Estate

Considerations applicable to this report:

Legal/Statutory Authority:

Community Charter, Division 7 – Permissive Exemptions

Existing Policy:

1.1 Official Community Plan (OCP)

Objective 4.12 Increase the diversity of housing types and tenures to create inclusive, affordable and complete Urban Centres.	
Policy 4.12.3 Diverse Housing Tenures	Encourage a range of rental and ownership tenures that support a variety of households, income levels and life stages. Promote underrepresented forms of tenure, including but not limited to co-housing, fee-simple row housing, co-ops, and rent-to-own.
Objective 5.11 Increase the diversity of housing forms and tenure to create an inclusive, affordable and complete Core Area.	
Policy 5.11.2 Diverse Housing Tenures	Encourage a range of rental and ownership tenures that support a variety of households, income levels and life stages. Promote underrepresented forms of tenure, including but not limited to co-housing, fee-simple row housing, co-ops, and rent-to-own.
Objective 6.9 Encourage housing forms that support students, faculty and staff of nearby employment centres.	
Policy 6.9.2 Range of Housing Tenures	Support a range of rental and ownership tenures that support a variety of households and income levels. In addition, support underrepresented forms of tenure, including but not limited to co-housing, fee-simple row housing, co-ops, and rent-to own.
Objective 6.10 Prioritize the construction of purpose-built rental housing.	

Policy 6.10.1 Housing Tenure Diversity	Support the development of rental housing in the Gateway District, within UBCO and the University South Village Centre.
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1.2 Housing Action Plan

2.4 Direct Action	<p>Revise rental housing tax exemptions: the City of Kelowna provides a 100 percent municipal tax exemption on the “revitalization amount” for ten years for new purpose-built rental housing. This exemption is part of a larger revitalization tax exemption program. The City is looking to expand this exemption to:</p> <ul style="list-style-type: none"> • Include other forms of tenures that support long-term affordability, including co-operative rental housing; • Include areas of the City outside of the Core Area and Village Centres; and • Include an exemption for land value for affordable housing projects. 	<p>Housing with Supports:</p> <ul style="list-style-type: none"> • Long-Term Supportive Housing • Subsidized Rental Housing <p>Market Housing:</p> <ul style="list-style-type: none"> • Rental Housing
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Financial/Budgetary Considerations:

The total estimated tax impact of the RTE program for the 2025 fiscal year is \$3.768 million, and \$4.043 million for 2026. This estimate does not include any of the expansions to the program described in this report.

The proposed expansion of the program is expected to increase uptake and add additional impact to taxation, while implementation of a rental vacancy restriction may reduce the impacts if vacancy rates increase:

- *Eligibility of co-operative housing:* While an RTE may help incentivize new co-operative housing, significant uptake of RTEs for co-operative housing is not expected given that the most recent co-operative housing project in Kelowna was constructed greater than 20 years ago. This would limit the financial impact of the expanded program. While there are groups interested in the development of co-operative housing in the Okanagan, staff are not aware of new co-operative housing projects that are close to an application at this time.
- *Additional support for non-profit rental housing:* The additional tax impact of exempting the value of land for non-profit rental housing varies on a case-by-case basis, but would likely vary between an additional 10% and 50%.
- *Expansion of eligibility boundaries:* Development of multi-unit residential rental projects outside of the Core Area is limited given that very little land is designated in the OCP for this purpose. Only one rental housing project containing 164 units has been approved outside of the current eligibility boundaries since the current OCP was adopted on January 10, 2022. Two projects containing 190 units outside of the eligibility boundaries are currently in-stream. Staff are aware of forthcoming projects in the Black Mountain and Dilworth areas that may be eligible (pending Council approval) and consist of 1,000+ additional units, but uptake would be expected over an extended period of time.

- *Implementation of a rental vacancy restriction:* A vacancy restriction will reduce the financial impact of the program when the vacancy rate is above 4% by reducing the number of RTE applications.

Considerations not applicable to this report:

Legal/Statutory Procedural Requirements:

Consultation and Engagement:

Communications Comments:

Submitted by: M. Tanner, Planner Specialist

Approved for inclusion: J. Moore, Housing Policy & Programs Manager
R. Smith, Divisional Director, Planning, Climate Action & Development Services

Attachments:

Schedule A: Proposed Text Amendments – Program Updates

Schedule B: Proposed Text Amendments – Additional Amendment