

Report to Council



Date: July 21, 2025
To: Council
From: City Manager
Subject: Rental Housing Grants Review – DCC Reductions for Affordable Housing
Department: Housing Policy and Programs

Recommendation:

THAT Council receives for information the report from the Housing Policy and Programs Department, dated July 21, 2025, regarding reducing Development Cost Charges for affordable housing projects through the Rental Housing Grant program;

AND THAT Council directs Staff to further explore and report back on draft options for updates to the Rental Housing Grant program as part of the Housing Accelerator Fund and Housing Action Plan as described in the report from the Housing Policy and Programs Department, dated July 21, 2025;

AND FURTHER THAT Council endorses placing the Rental Housing Grant program on hold for 2025.

Purpose:

To receive an overview of the City's current approach to Development Cost Charge relief for affordable housing and direct a review of and update to the current approach.

Council Priority Alignment:

Affordable Housing

Background:

This report outlines Staff's rationale for reviewing the City's approach for Development Cost Charge (DCC) relief for affordable housing. As per the City's 2023 Housing Needs Assessment, Kelowna has a shortage of affordable housing, and a significant increase in the delivery of subsidized rental housing is required to meet the needs of current and future residents. The primary responsibility for affordable housing is federal and provincial, however increasingly local governments can and have begun to play a greater role in helping to catalyze the development of affordable housing.

The need for affordable housing is significant—housing costs continue to outpace earnings, even for many middle-income families, creating pressure that ripples across the entire housing system. Increasing affordable housing supply creates greater equity, supports stronger neighbourhoods, and fuels a thriving local economy by ensuring people can continue to live and work in Kelowna.

However, affordable housing is one of the most challenging forms of housing to build, due to complex funding and regulatory frameworks, as well as high land and construction costs. The successful delivery of affordable housing requires coordination and a variety of supports from all levels of government, non-profit organizations, funders, and the development industry.

To help address challenges in building affordable housing, the City provides support through several tools including land contributions, tax exemptions, regulatory adjustments, and the Rental Housing Grants (RGH) program which provides some DCC relief.

Today's report focuses on the RGH program and considers how this program could be optimized to better support affordable housing through adjustments to timing, certainty, and amount of DCC relief.

This review of the RGH program aligns with Housing Action Plan (HAP) Action 2.3 and Housing Accelerator Fund (HAF) Initiative 2. Staff are recommending that the RGH program be placed on hold for 2025 until the review has been completed and recommended updates have been implemented.

What are DCCs and how do they work?

All new housing projects, including affordable housing projects, are subject to pay DCCs at about \$30,000 per unit of apartment housing. DCCs are a tool that enables local governments to collect funds for specific types of infrastructure projects. DCCs are intended to offset some of the capital costs associated with the increased need for infrastructure arising from new development. The Local Government Act permits municipalities to waive or reduce DCCs for specific types of development, including affordable housing projects.

How does our current DCC relief program operate?

The City of Kelowna has operated the RGH program since 2006. The RGH program has an annual budget of \$300,000, which goes towards DCC relief for affordable rental housing projects. On average, the RGH program supports approximately 10 per cent DCC relief for about 100 affordable housing units per year.

The program budget has not changed notably since its inception despite significant growth in construction and DCC costs. In addition, since 2006 the community has grown by 50 per cent, and the need for affordable housing has grown even faster.

In 2025, the RGH program was bolstered by a onetime \$3.0M contribution from the HAF, increasing total annual funding to \$3.3M. As a result, the 2025 program supported a higher-than-average number of units (341) as well as a higher-than-average level of DCC relief (34 per cent).

In terms of RGH program logistics, the current structure is a grant with a once-a-year intake, the timing of which is determined by the City. Affordable housing providers must apply for the program, and the specific grant amount is not guaranteed and is determined by dividing up the available \$300,000 among eligible applicants.

The RGH program is often layered with other incentives including the revitalization tax exemption program and more flexible development regulations, such as parking reductions.

How do other municipalities approach DCC relief?

The two most common approaches for providing DCC relief for affordable housing are waivers and grants. DCC waivers are the most used method of providing cost relief (Attachment A). DCC waiver programs vary based on factors such as:

- Minimum levels of affordability and percentage of affordable homes
- Minimum time commitments for maintaining affordability, ranging from 15-60 years

In contrast, municipalities that offer DCC relief through grant programs often have multifaceted criteria to determine funding. Additionally, the DCC relief for each affordable housing project depends on the amount of money allocated to the program, meaning there is no specific level of DCC relief guaranteed for any given affordable housing project. Without knowing the specific level of DCC relief, it is challenging for affordable housing developers to determine the impact of an indeterminate grant amount on their financial performance.

Discussion:

The City of Kelowna's rental housing incentives have proven effective in encouraging the construction of market rental housing. However, the RHG is one of few additional incentives offered to encourage affordable housing construction, and it has struggled to make a significant impact.

Of note, there are many factors that impact the delivery of affordable housing units, and DCC relief alone does not guarantee that more affordable housing units will be built. However, early indications suggest that an effective DCC relief program is one of the more significant levers that municipalities can pull to support affordable housing and additionally would complement the Province's latest work for flexible and extended DCC payment timelines for homebuilders.

These indications are supported by a City initiated third-party review of development incentives completed in 2024 in support of the HAP and HAF. The review concluded that municipal DCC relief offers several benefits for affordable housing projects. First, DCC relief can reduce overall development costs by up to 7 per cent. Additionally, DCC relief can improve applications to senior government funding programs by demonstrating local government support. The review also offered three recommendations for updates to the City's RHG to further support affordable housing in Kelowna:

1. Provide DCC relief in the form of a waiver (guaranteed, consistent, upfront) rather than a grant (not guaranteed, requires application, inconsistent funding amount, late in process).
2. Increase RHG program funding and provide a sliding scale based on the level of affordability.
3. Allow DCC relief for affordable housing projects that have received municipal land contributions.

Staff also conducted preliminary discussions about DCC relief with several non-profit, government, and development organizations that are involved in delivering affordable housing. The following themes were highlighted:

- Municipalities can increase the likelihood of affordable housing being delivered by providing process predictability, process speed, and financial support. In terms of financial support, DCC relief and tax exemptions are high-impact tools.
- Affordable housing projects are typically funded through a competitive process administered by BC Housing or CMHC; financial assistance from a municipality in the form of DCC relief demonstrates local support and can also help make the project more financially viable if DCC relief is predictable and guaranteed.
- Many other cities in BC provide at least a 50 per cent DCC waiver for non-profit housing, with some offering full exemptions; higher DCC waivers make projects more financially viable and competitive from a financing perspective.

Staff recommend that additional analysis be conducted to further explore how to make the RHG program as successful as possible. Should Council approve moving forward with the RHG review, Staff will also evaluate feedback from the development incentives review and industry engagement in more detail. Staff will consider the potential impacts – including financial impacts – of adjusting the RHG program, and look at factors including:

- Grants vs. waivers

- Timing of program
- Amount of DCC relief

The goal of this work is to bring forward suggested options for program updates to Council in a later report, as outlined in the approach section below.

Approach & Timeline

To provide Council with a thorough set of options regarding updates to the RHG program, Staff propose the following process and timeline:

- Stage 1: Background research (development incentives review), preliminary engagement, initial report to Council
- Stage 2: Internal and technical analysis on DCC program impacts and budget implications
- Stage 3: Options identification and second report to Council
- Stage 4: Further industry and partner engagement with preferred option
- Stage 5: Final report to Council, implementation, monitoring



Summary and Next Steps:

DCC relief is a high impact tool that municipalities can use to support affordable housing projects, and the City of Kelowna currently offers some DCC relief through the existing RHG program. Staff are recommending reviewing the RHG program to explore opportunities for improvement. However, it should be noted that any form of DCC relief for affordable housing is, in effect, shifting the burden of infrastructure costs to the broader community. Should Council support this recommendation, Staff will undertake work activities outlined in the Approach & Timeline section of this report and bring back an additional report to Council outlining options for potential program updates later in 2025. Further, Staff are recommending the 2025 RHG program be placed on hold until the program review is completed and any recommended updates are implemented.

Internal Circulation:

Development Planning
 Development Services
 Financial Services
 Long Range Planning
 Partnerships and Investments
 Real Estate Services

Social Development

Considerations applicable to this report:

Legal/Statutory Procedural Requirements:

Local Government Act Section 563(1)

Section 563 of the *Local Government Act* allows local governments to waive or reduce a development cost charge for:

- Not-for-profit rental housing, including supportive living housing; or
- For-profit affordable rental housing

Existing Policy:

Imagine Kelowna

2040 Official Community Plan Bylaw

Housing Action Plan Action 2.3 - Reduce municipal charges for affordable housing projects

Housing Accelerator Fund Initiative 2 - Adjusting Regulations: Incentivizing private sector housing development

[Council Policy #335 – Rental Housing Grants Eligibility](#)

Financial/Budgetary Considerations:

DCC relief for affordable housing has significant budgetary considerations because the lost DCC revenue must be backfilled with taxation or other City funding sources to fully fund the DCC program. Should Council direct staff to proceed with this work, full financial consideration of recommended options will be provided. As referenced in the Housing Action Plan Report to Council in January 2025, DCC relief for affordable housing projects would require a significant, ongoing budget request that could range from 0.5-1.2 per cent of taxation revenue, depending on the structure of the program and the number of units supported. Should Council advance this action at that time, staff would endeavor to minimize any financial impact on the City where possible.

Considerations not applicable to this report:

Legal/Statutory Authority

Communications Comments

External Agency/Public Comments

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Attachment A: Existing DCC Relief Models in other BC Municipalities