

Report to Council



Date: September 18, 2017
File: 1220-02
To: City Manager
From: Ross Soward, Planner Specialist
Subject: Revitalization Tax Exemption Program Update 2017

Recommendation:

THAT Council receives, for information, the report from the Planner Specialist, dated September 18, 2017, regarding the status of the Revitalization Tax Exemption Bylaw and purpose-built rental housing tax incentive programs;

AND THAT Bylaw No. 11458 being Amendment No. 5 to Revitalization Tax Exemption Program Bylaw No. 9561 be forwarded for reading consideration.

Purpose:

To provide Council with an update on the status of the Revitalization Tax Exemption program and to update the bylaw to reflect current tax incentive areas and revised definitions.

Background:

The Revitalization Tax Exemption (RTE) Bylaw was established in 2006 to offer incentives for investment and development in the Downtown and Rutland urban centres. The following objectives of the RTE Program are:

- “To encourage new residential and commercial development to locate within urban centres in order to sustain and enhance the existing commercial centres, reduce greenhouse gas emissions associated with transportation, and promote healthy and pedestrian-oriented lifestyles;
- To promote a higher standard of urban design within urban centres in order to increase the attractiveness of these locations to existing and potential residents;
- And to generally reinforce the prominence and importance of urban centres within Kelowna”.

The RTE Bylaw enables eligible developments to receive a ten-year exemption from the municipal portion of property taxes on the incremental value of improvements (i.e. the difference between pre-development assessed value and post-development assessed value).

In the early years of the program (2006-2011), no qualifying development occurred in the tax incentive areas. In response to this, the incentive program was adjusted in 2012. Since the adjustment in 2012, numerous projects have utilized the Revitalization Tax Exemption throughout the City.

Tax Incentive Areas

The RTE Bylaw stratifies the available tax exemptions by priority areas within the City Centre so that the areas of highest priority for investment receive the greatest tax benefit (refer to Attachment 'A' and 'B' for the Incentive Areas).

<i>Tax Incentive Area</i>	<i>Revitalization Amount & Conditions</i>
<i>Tax Incentive Area 1</i>	<i>100% of the Revitalization Amount¹ on the parcel.</i>
<i>Tax Incentive Area 2</i>	<i>100% of the Revitalization Amount on the parcel, for a project with a minimum floor area of 3,716 m² (40,000 sq. ft.); 75% of the Revitalization Amount on the parcel which can be attributed to a residential land use, and/or 50% of Revitalization Amount on the parcel which can be attributed to a commercial land use, for a project with a floor area of less than 3,716 m² (40,000 sq. ft.).</i>
<i>Tax Incentive Area 3</i>	<i>50% of Revitalization Amount on the parcel, for a project with a minimum floor area of 3,716 m² (40,000 sq. ft.)</i>
<i>Tax Incentive Area 4</i>	<i>100% of the Revitalization Amount on the parcel; in the Rutland Urban Centre.</i>

Current Status

As of September 2017, Tax Incentive Area 3 is now fully subscribed with approximately 200,000 ft² of revitalization tax exemption agreements secured in this area as listed in Figure 1. Since the 2016 Council update, two additional projects have finalized their exemption agreements (Central Green-Two and Sole-Two) accounting for roughly 90,000 square feet. These two projects are estimated to have a combined exemption of roughly \$61,500 per year for 10 years. On August 10th, 2015 Council directed staff to not to extend the exemptions in Tax Incentive Area 3 beyond the existing 200,000 square foot threshold. Staff continue to agree this direction is appropriate and are therefore recommending Tax Incentive Area 3 be removed as per the Revitalization Tax Exemption Bylaw.

¹ "Revitalization Amount" means the municipal portion of property tax calculated in relation to the increase in the assessed value of improvements on the property resulting from the construction or alterations."

Figure 1: Tax Incentive Area 3 Projects

Address	Project Name	Gross Floor Area (ft ²)	Tax Area	Application Number
1350 St. Paul St	Sole Two	25,137	3	RTE16-0005
1770 Richter St	Central Green-Two	65,384	3	RTE16-0007
460 Doyle Ave	Okanagan Centre for Innovation	106,027	3	RTE15-0002

Purpose-built Rental Housing

In 2012, the RTE Bylaw was amended to include incentives for the development of purpose-built rental housing anywhere in Kelowna when the vacancy rate is than three per cent. Over the past three years the City has seen considerable interest in rental housing incentives. For the 2017 tax year the RTE for rental housing will represent roughly \$208,000 in exemptions. Since the 2016 update Council has approved nine rental housing tax exemption agreements that staff estimate to have a combined annual exemption of roughly \$400,000 for ten years as they take effect in 2018-2020.²

One of the goals of the RTE rental housing program is to support non-profit housing providers who rely on partnerships with various levels of government. However, one program BC Housing is using to support these groups, requires the non-profit housing providers to stratify units to allow BC Housing to purchase a portion of the units to secure equity in the projects. This process of stratifying units to facilitate BC Housing equity is interpreted by the British Columbia Assessment Authority (BCAA) as being in conflict with the City of Kelowna’s definition of *purpose-built rental housing* in the City’s Revitalization Tax Exemption Bylaw. To eliminate this issue, staff is following Council’s recommendation to update the definition of purpose-built rental housing (see below) to allow for stratification of units where a project also has an operating agreement with BC Housing.

Proposed Definition for "Purpose-Built Rental Housing" means a self-contained building(s) containing five or more Dwelling Units that are intended to be used for rental housing. Purpose-built rental housing meets an identified need for housing in the City and does not include buildings that are stratified, except those stratified buildings that are subject to operating agreements with the Provincial Rental Housing Corporation.

² Projects included in high-level staff estimate: 305 Homer Rd, 755 Academy Way, 805 Academy Way, 2065 Benvoulin Crt, 125 Dundas Rd, 1545 Bedford Ave, 1469 KLO Rd, 1975 Kane Road, and 1775 Chapman Pl.

Discussion

Urban Centre Revitalization

Over the last two years the urban core has become a hub of investment and development with a number of significant projects under construction in the Downtown. As a result, Tax Area 3 has reached the 200,000 square foot cap and will therefore be removed. Much of the development and investment in the Downtown has taken place inside Tax Incentive Area 3 (Central Green, St Paul, Ellis and Sunset). Staff believe the tax incentive in Area 3 has served its purpose and it is no longer necessary to incentivize development in this area. With Tax Incentive Area 3 eliminated, there may be more interest in other areas of the downtown in the coming years where development activity is encouraged and the program can catalyze this investment.

Although Tax Incentive Area 1 and 2 have seen less development activity over the last two years, there are encouraging signs that the development community may be starting to reconsider these areas. The new commercial project at 455 Lawrence Ave and the purchase and development application for 1580 Ellis (ELLA) are signs that Tax Incentive Area 2 may become a new area of focus for downtown development and investment.

There are also signs of growing interest in Rutland with several projects moving through the development permit process and a 22-unit student housing project receiving building permit in June 2017 that has applied for a Revitalization Tax Exemption. Overall, the RTE program is a complementary tool that will support additional investment in Rutland over the coming years.

Purpose-built Rental Housing

The purpose-built rental housing tax incentives under the RTE Bylaw have also seen considerable interest. Since the 2016 Council update, the City has entered into nine RTE agreements with another four expected to be brought forward for Council consideration in the fall of 2017. The high number of rental housing revitalization tax exemptions reflects the significant amount of purpose-built rental housing under construction. As these rental housing projects are completed in 2018 and 2019, the supply of purpose-built rental housing will increase significantly. CMHC predicts that even with continued population growth in Kelowna, the City's rental housing vacancy rate will begin to rise by the end of 2017 and further in 2018 to roughly 2 per cent. As Kelowna's vacancy rate for rental housing begins to reflect a healthier level of rental supply, there may be an opportunity to shift tax incentives from market rental to subsidized rental housing projects to ensure a balanced housing market. These and other incentives will be considered through the development of the City's Healthy Housing Strategy in 2017-2018.

Conclusion

The RTE Bylaw continues to be a complementary tool to reinforce the City's goals for building vibrant urban centres and encouraging housing diversity. The original goal of this program was to "establish a revitalization tax exemption program in the City of Kelowna in order to encourage redevelopment of those areas, which are experiencing challenges in attracting investment and are not achieving their full potential to serve the residents of Kelowna as vital, animated urban spaces." The elimination of Tax Incentive Area 3 illustrates that this area of the Downtown has solidified itself as the premier location for development and investment with a number of significant projects underway. As the Downtown becomes more built-out and prices increase for multi-family properties, the market may begin to look at areas in Tax Area 1 and Tax Area 2 with the RTE incentives supporting areas where investment is strongly encouraged to balance out the development activity.

From a rental housing perspective, the City continues to experience a significant shortage of rental housing supply. For this reason, the City's RTE rental housing program has supported the development of rental housing over the last several years. However, as the supply of rental housing returns to a healthier level by the end of 2018, there may be an opportunity to shift the focus to subsidized rental housing.

Internal Circulation:

Deputy City Clerk
Director, Financial Services
Manager, Urban Planning
Divisional Director, Community Planning & Strategic Investments
Department Manager, Policy & Planning
Financial Analyst, Financial Planning
Revenue Supervisor, Revenue

Legal/ Statutory Authority:

Community Charter, Division, Section 226

Existing Policy:

Official Community Plan Bylaw No. 10500

Objective 5.9 – support the creation of affordable and safe rental, non-market and/or special needs housing.

Policy 5.1.3 Rutland & Downtown Revitalization Tax Exemption Program. Provide a revitalization tax exemption for the municipal portion of the annual taxes on improvements for development within the City Centre and Rutland Town Centre as per Revitalization Tax Exemption Bylaw No. 9561

Downtown Plan

Action Item 16 – Provide financial incentives for affordable housing

Submitted by: R. Soward, Planner Specialist

Approved for inclusion:
Attachments:



J. Moore, Manager of Long Range Policy Planning

Attachment A – Downtown Tax Incentive Areas

Attachment B – Rutland Tax Incentive Area