West End Neighbours Challenges Short Term Incentive for Rentals (STIR)

November 15, 2011

Executive Summary

On behalf of West End residents, West End Neighbours (WEN) seeks to address concerns about the Short Term Incentives for Rental (STIR) program and the waivers provided developers for the provision of market rental housing. These concerns have been expressed by the over 12,500 residents who have signed a petition asking for a stop to site-specific rezonings in the West End until a comprehensive community plan is in place.

WEN is concerned about the need for development that is appropriate and for the West End's ability to accommodate new residential growth, including increased pressure on community amenities and a lack of public funding options to address this pressure. Developers of STIR projects are granted incentives for larger buildings and faster rezonings, while the neighbourhood is left with aging facilities and no new funds to repair them. WEN is apprehensive that these kinds of out of scale and out of character developments will profoundly change their community and will not address the stated objective of the STIR program – to help address housing affordability by increasing the supply of rental accommodation.

In examining the STIR program and its legal basis, it is WEN's contention that:

1. The Vancouver Charter **does not** give the City of Vancouver the authority to waive Development Cost Levies (DCL's) for market rental housing.

2. The City of Vancouver has **improperly delegated** Council's legislative authority by granting the City Manager the discretion to determine the affordability of for-profit affordable rental housing development proposals in the manner that it has done.

3. The definition of "affordable" under the by-law is **too vague** and uncertain to be enforceable.

WEN considers that its position is legally supportable. Based on these conclusions, WEN requests that the City of Vancouver cancel the STIR program and refrain from similar incentive packages to avoid providing additional development projects with inappropriate DCL waivers.

Further, WEN requests that the City of Vancouver stop giving inappropriate benefits to developers for the creation of market rental units through granting increased density, forgiving property taxes, eliminating community amenity contribution (CAC) requirements, reducing parking requirements and waiving Development Cost Levies (DCL's) on the argument that STIR is supplying "affordable" rental housing. STIR is providing market rental housing that benefit developers and the costs to the City and to its taxpayers are too high.

STIR is creating some of the most expensive rental housing in the City. It is not helping to address housing affordability – in fact it may be worsening affordability issues by encouraging nearby multi-unit building owners to renovate suites to compete with the new units.

The program is offering incentives to developers to create market rental units with no rent cap, and is creating long-term investments with almost guaranteed income for the investors attracted to these types of properties.

The incentives offered are resulting in deficiencies that must be made up by other taxpayers, and the projects created are damaging livability and neighbourhood character. Public money and City Council's discretionary zoning powers should not be used in this way.

Residents must have confidence that their City administration is being operated in a transparent and legal manner and while STIR is a program with worthy goals, it is one that has been rushed into the implementation stage without sufficient consultation or analysis.

The legal framework of STIR is flawed and the City Manager has been waiving Development Cost Levies for these developments without proper authority. These inappropriate waivers must stop and if rental housing is to be encouraged, a revised rental incentive program should be established.

West End Neighbours Challenges Short Term Incentive for Rentals (STIR)

West End Neighbours (WEN) and its supporters, who consist primarily of residents in the West End of Vancouver, seek to address concerns about the impact of the Short Term Incentive for Rental (STIR) program and the waivers provided to developers for the provision of market rental housing.

Site-specific rezonings for STIR projects have created great anxiety in the West End and override neighbourhood objectives, as evidenced by the over 12,500 residents who have signed a petition asking for a stop to site-specific rezonings until a comprehensive community plan is in place.

WEN is concerned about the need for appropriate development and the West End's ability to accommodate new residential growth, including increased pressure on community amenities and a lack of public funding options to address this pressure. Developers of STIR projects are granted incentives for larger buildings and faster rezonings, while the neighbourhood is left with aging facilities and no new funds to repair them. WEN is apprehensive that these kinds of out of scale and out of character developments will profoundly change their community and will not address the stated objective of the STIR program – to help address housing affordability through increasing the supply of rental accommodation.

What is STIR?

The City of Vancouver states that it designed the STIR program to address the need for rental housing by encouraging the development industry to create it. The program includes two streams: a simple stream and a negotiated stream, but in general, the program aims to increase market rental units secured as rental for the life of the building or 60 years, whichever is greater.

The STIR incentive package includes:

- Rental property assessment (on rental units only)
- Development Cost Levy waiver (on rental units only)
- Parking requirement reductions (on rental units only)
- Discretion on unit size
- Increased density, and
- Expedited permit processing

Part of the intent of the program was to encourage continued development activity during the uncertain economic times of late 2008 and early 2009. (It turned out the development industry recovered much more quickly than was anticipated.) The City hoped that the incentives offered would create new rental housing stock and would assist with housing affordability.

The Background and Legal Basis of STIR

Concerns with STIR led WEN to enquire into the STIR program and its legal framework. At the time of the program's passage through Vancouver City Council, there was little awareness or public discussion of the impact of the program. Given the loss of revenue from Development Cost Levies (DCL's), Community Amenity Contributions (CAC's), and property taxes, WEN researched three questions the interest of Vancouver taxpayers:

1. Does the *Vancouver Charter* give the City of Vancouver the authority to waive Development Cost Levies (DCL's) for *market* rental housing?

2. Pursuant to Section 523D(10.5)(a) and (b) of the *Vancouver Charter,* does the City of Vancouver have the authority to delegate to the City Manager the discretion to determine the affordability of for-profit affordable rental housing development proposals in the manner that it has done?

3. Is the definition of "affordable" under the by-law too vague?

As the most direct financial impact under STIR is the waiver of Development Costs Levies (DCL's) some background on the purpose of DCL's may be helpful, and can be reviewed in the attached "Backgrounder A – Development Cost Levies." DCL's are funds collected on new development that help the City finance new growth.

Metro Vancouver Affordable Housing Strategy and Provincial Response in Legislation

In 2007, the Metro Vancouver Affordable Housing Strategy was adopted by Metro Vancouver and included as one its actions a request to the provincial government to amend the governing legislation to grant local governments the authority to "waive development cost charges for non-profit rental housing, supportive housing and other forms of rental housing where affordability is secured for a minimum of 20 years."

In response, the provincial government enacted the Local Government (Green Communities) Statutes Amendment Act (2008) which among other provisions, allows local governments and municipalities that are subject to the Vancouver Charter, the Local Government Act or the Greater Vancouver Sewerage and Drainage District Act to waive or reduce development cost levies for certain "eligible developments" including "for-profit affordable rental housing". "Affordable" is not defined in the provincial legislation.

In 2008 when Bill 27 (the *Local Government (Green Communities) Statutes Amendment Act, 2008*) was being debated in the Legislative Assembly the following statement was made by the NDP MLA for Vancouver (Fairview):

> *We have a real challenge here, as my colleagues have stated, around the downloading that is imposed again on municipal governments by this bill. We have continually raised issues here around the development cost charges. These will only exacerbate the fiscal imbalance that we see for local government. Local government does not have the resources to address the critical need to reduce carbon footprint and greenhouse gas emissions. By pulling away the development cost charges from local governments, it will only make things worse in many situations as local governments are starved out. Clearly they're unable to escape the costs associated with development and those costs that are typically covered by DCCs. However, with DCCs being exempted or excluded from local government revenue, that means a shortage of funding.*
>
> *One has to wonder what the purpose is. There's a noble intention in ensuring that development is greener and that there is a provision for smaller, self-contained residential housing units. However, if all of these*

> *good intentions conflict with the ability for local government to actually implement and survive on the scrawny budgets that only property taxes and the charges and levies which they are empowered to collect provide, then we're going to have problems down the road here. We're not going to achieve the targets that have been set and that by this bill are being imposed on local governments"*
>
> *[British Columbia Debates, Tuesday, May 13, 2008, at page 12363]*

The MLA for Vancouver (Fairview) at the time was Gregor Robertson – currently Mayor of the City of Vancouver. Shortly following his election as Mayor, Gregor Robertson reversed his position on the waiver of development cost charges and voted for the STIR program including amendments to the Development Cost Levy Bylaw to allow the waiver of DCL's for STIR projects.

Because Vancouver is regulated by the Vancouver Charter and not by the Local Government Act, following the amendments to the Local Government Act, Section 523D of the *Vancouver Charter* was amended by adding subsections 10.2 through 10.5 (See Attachment B – Vancouver Charter Amendments).

In general, the amendments established what constituted the types of development eligible for a reduction in development charges, including (Section 10.3) "for-profit affordable rental housing."

Further the amendments (Section 10.5) require or allow Council to:

(a) establish what constitutes an eligible development
(b) establish the amount or rates of reduction for an eligible development, and
(c) establish the terms and conditions that must be met in order to obtain a waiver or reduction.

Defining the term "Affordable" at the National and Regional Level

While many housing experts use the term "affordable housing" to mean housing that requires an expenditure of not more than 30% of gross household income, the term "affordable" was never actually defined in the changes to the Vancouver Charter.

Canada Mortgage and Housing Corporation (CMHC) defines "affordable housing" as follows:

> ***Affordable housing*** *costs less than 30% of before-tax household income. Shelter costs include the following:*
>
> - ***For renters:*** *rent and any payments for electricity, fuel, water and other municipal services;*
> - ***For owners:*** *mortgage payments (principal and interest), property taxes, and any condominium fees, along with payments for electricity, fuel, water and other municipal services.*

"Affordable" is a relative term so it is up to the local government to establish an objective definition that can be applied fairly. As an example, the *Greater Vancouver Sewerage and Drainage District Development Cost Charge Bylaw No, 254, 2010* at subsection 3.1(i) provides a comprehensive, objective definition for affordability:

> "For Profit Affordable Rental Housing" means Dwelling Units in a Development comprising Residential Use or Combination Development that will be rented or sublet;

(i) at below market rental rates so that the Rent charged does not exceed the lesser of:
(1) 80% of the average market rent for the Member Municipality where the Dwelling Unit is located;
(2) 80% of the average market rent for all of the Member Municipalities as identified or reported in Canada Mortgage Housing Corporation's most recent rental market survey.

(ii) to persons who have an annual household income that falls:
(1) at or below 80% of the Median Household Income if the Dwelling Unit has 3 or more bedrooms;
(2) at or below 70% of the Median Household Income if the Dwelling Unit has 2 bedrooms;
(3) at or below 60% of the Median Household Income if the Dwelling Unit has 1 bedroom;
(4) at or below 50% of the Median Household Income if the Dwelling Unit is a bachelor suite.

As a point of comparison, the median household income in Vancouver in 2006 was $47,300. Metro Vancouver's housing definitions indicate an "Affordable Housing Cost" at not more than 30% of gross income. This means that a median renter household should be able to spend up to $872 per month to be defined by Metro Vancouver as having access to "affordable housing."

TABLE 1. Median Household Income, by Tenure (2006)

	All Households		Renter Households			Ownership Households		
Municipality	**Total Dwellings**	Median Household Income	Total #	Median Household Income	Affordable Housing Cost	Total #	Median Household Income	Affordable Housing Cost
Vancouver	253,380	$47,299	131,515	$34,872	$872	121,830	$66,087	$1,652

** Affordable Housing Cost is equal to 30% of median household income, shown as a monthly cost.*
Source files: Metro Vancouver Housing Data Book (April, 2011) / Customized data tables, based on 2006 Census

In the West End, the median household income is even lower than for City of Vancouver as a whole. The median income for all households (renter and owner) in the West End is $38,581 (circa 2006 - Source: City of Vancouver, Community Statistics).

The lack of a working definition of "affordable housing" is one of the core problems with the City's STIR program that creates challenges in resolving housing needs.

Adoption of the STIR Program:

In 2009 Vancouver City Council created the Short Term Incentives for Rental (STIR) program to encourage the development of new market rental housing.

The City's objectives for the STIR program were to provide:

> *… a strategic set of City incentives to encourage and facilitate the development of new residential market rental housing. The STIR program is designed to respond to a short term economic recession that has precipitated a decrease in construction activity with associated costs and challenges to the City. The timing of the STIR program represents an opportunity to increase rental housing supply with new rental housing projects as a key component of the City's housing efforts within this economic period and at the same time provide an opportunity for supporting the development and the building industry to maintain jobs and investment in the City's economy. The details of the STIR program have been developed by an interdepartmental staff working group, coordinated by a senior staff Steering Committee, and informed by a multi-stakeholder Roundtable discussion forum hosted by the Mayor on April 25, 2009.*

Whether it is appropriate for the City to use its zoning powers to assist the development industry with an economic downtown is open for discussion, but it is clear from the above that STIR included significant input from the “industry roundtable” held on April 25, 2009 at the invitation of Mayor Gregor Robertson. The Mayor, Council and senior City staff hosted this meeting at Mountain View Cemetery to discuss the topic of building affordable and rental housing. Thirty-four people attended, representing local developers, designers, real estate consultants, housing advocates and neighbourhood groups. Ideas discussed at the roundtable were eventually incorporated into the STIR program.

No effort at broader public consultation took place regarding the components of STIR or its incentives, and there was little opportunity for public input.

Adoption of the STIR Program

There was almost no advance warning of Council’s consideration of the item when originally scheduled (as a “late distribution” Report to Council) at the June 16, 2009 meeting of Council Special Standing Committee on Transportation and Traffic. (The rationale for forwarding a rental housing initiative to a meeting of this committee is unclear, other than as an attempt to minimize the profile of this Council item).

The Staff Report included a “communications plan” that identified the need for "advertising the opportunity for delegations to be heard by Council prior to endorsement of the STIR program" but it is unclear whether any such advertising ever took place – certainly WEN is not aware of any.

City staff have since summarized the consultation approach as follows:

> *“Council wanted to act quickly to implement a program to increase the supply of rental housing to take advantage of a period of economic uncertainty. As a result, consultation focused on the Mayor’s Roundtable with industry, community organizations and individuals involved in housing.”*
>
> *Source: City of Vancouver – “Short Term Incentives for Rental – Frequently Asked Questions” (May 11, 2010)*

At the June 16, 2009 meeting of Council Special Standing Committee on Transportation and Traffic, the item was eventually referred to a Planning and Environment Committee Meeting of June 18, 2009.

City Council considered the issue two days later at the Planning and Environment Committee Meeting, Councillor Anton attempted to have the item referred back to staff for more public consultation. Councillor Woodsworth attempted to refer the item back to staff for more information on the definition of “affordable housing.” Chair Andrea Reimer deemed both of these referral motions “out of order”.

The recommendation to implement the STIR program was approved in an 8 to 2 vote. Councillors Anton and Woodsworth opposed the resolution while Vision Vancouver councilors and Mayor Robertson voted to support STIR.

Following the adoption of the motion, Councillor Meggs observed that “The consultation was the election and this is the delivery.”

WEN is confident that had additional information been provided to the public about the intent and content of the STIR program, residents would have wanted an opportunity for consultation. In fact, had broader public input been attained prior to implementation, it is likely that STIR could have been designed to increase public acceptance and had a greater likelihood of achieving its objectives.

Implementation of STIR

As a result of this program, Vancouver neighbourhoods are facing spot rezoning and development applications for buildings that include significant departures from height, floorspace and design expectations permitted under current zoning, development guidelines and community plans. Approval of these projects will have major long-term impacts on the affected neighbourhoods.

STIR was adopted as one initiative to address the issue of rental and affordable housing supply in Vancouver. The City of Vancouver's Report to Council of June 2, 2009 provides details on the STIR program. These report excerpts are included in "Backgrounder A" attached.

The STIR program is not in itself a bylaw. The legislative framework for the waiver of DCL's is found in other City legislation, including the City of Vancouver Development Cost Levy By-law No. 9755. That bylaw was amended in 2009 to allow the City Manager the discretion to determine affordability. The Bylaw states in part:

> *3.1 Subject to this By-law, Council imposes, on every person entitled to delivery of a building permit authorizing development in the general area, the levies set out in section 3.2, except that Council waives the levy otherwise required under section 3.2 for construction of for-profit affordable rental housing:*
>
> > *(a) which the City Manager, after considering the finishing, size, location and other design considerations, and proposed rents, determines to be affordable; and*
> >
> > *(b) against title to which the owner of the property on which such housing is situate has registered an instrument, in form and substance, and with priority of registration, satisfactory to the Director of Legal Services, restricting the tenure of such housing to rental only for:*
> >
> > > *(i) the longer of the life of the building in which they are situate and 60 years, or*
> > >
> > > *(ii) such other term to which the city and owner may agree."*

Developers have embraced the incentives offered by the City, and have made a number of development inquiries and applications for rental projects under the STIR program.

A summary of the projects approved or pending Council approval is shown in the table below.

STATUS UPDATE - SHORT-TERM INCENTIVES FOR RENTAL (STIR) PROGRAM
Processed Applications (approved or pending Council approval)

Project Address	Units	Date	Project Status
1215 Bidwell Street	49	Dec 15/09	Approved w/Conditions - Permits pending
1240 Howe Street	20	Jan 6/10	Approved w/Conditions - Permits pending
1142 Granville Street	106	Jun 22/10	Under construction
3522 Porter Street	192	Jan 18/11	Approved w/Conditions - Permits pending
8495 Granville Street	31	May 17/11	Approved w/Conditions
1650 Quebec Street	91	Jun 16/11	Approved w/Conditions
8440 Cambie Street	*46*	*July 19/11**	*Approval pending*
2730 East 41st Avenue	*40*	*Sept 20/11**	*Approval pending*
TOTAL	**575**		

* Date of scheduled Public Hearing

(Source: City of Vancouver Report to Council re. 2730 East 41st Avenue)

The West End has two other STIR projects “in progress”:

1600 Beach Avenue (Beach Towers)

The existing Beach Towers development is a 449 unit multi-tower rental complex on English Bay built in the late 1960’s to an award-winning and iconic architectural design. The owner is proposing to add 118 new rental units in infill buildings on Beach Avenue and Harwood Streets utilizing the benefits of the STIR program. The City of Vancouver Heritage Commission unanimously rejected the proposal in June of 2011 and the Urban Design Panel did not support a version of the project in September of 2011.

Existing density on the site, one of the densest blocks in the West End, is 2.2 FSR. Proposed density under the re-development proposal is 4.45 FSR. The increase in site density by 27% will allow for water view, multi-level townhomes to be built fronting Beach Avenue between the two existing towers. A 9-storey building is proposed to rise at the corner of Harwood and Cardero Streets, with additional townhomes wrapping the base of the tower at 1651 Harwood Street.

The project includes replacement of the private amenity on site, the swimming pool and fitness centre, but no public amenity contribution in association with the increase in density.

Further, a feature of the Beach Towers development since it was built has been the open space between the towers providing public views through the site for users of Harwood and Cardero Streets. The proposed development will significantly damage these public views, as well as shading Harwood and Cardero Streets.

1401 Comox Street

The most recent proposal at 1401 Comox Street was for a 395% density bonus to create 192 STIR rental units in a 22 storey tower – the project is currently “on hold” as a result of neighbourhood concerns. Effective land costs at this site would be lowered to $33 per “buildable” square foot of floor area (almost exactly half of the price paid at 1142 Granville). The bonus density under consideration needs to be predictable. The desire to create market rental housing cannot be permitted to allow development of buildings out of scale with their surroundings and with negative impacts on their neighbours.

Costs of STIR

For every rental unit created under STIR, the City foregoes approximately $7,600 in Development Cost Levies. As of September 2011, City staff report that 575 units are approved or in progress under the STIR program, with another 487 units under application. Using the City’s suggested average of $7,600 per unit, if approved, **the lost DCL revenue on these units would be over $8,000,000 -** an amount that will continue to grow if more and more STIR units are approved.

Rental Property Assessment has a significant impact as well on future tax revenues for the City. With a 10 to 20 percent reduction in the assessed value of properties, for the 1,062 units approved, in progress, or under application, this could mean a reduction in taxes every year in the order of $300,000 with this tax deficiency to be made up by other taxpayers in the city who would be faced with higher tax bills to compensate for STIR incentives. Over the 60 year rental life of this incentive would result in **$18.2 million in tax revenue** to be made up by other taxpayers.

Regardless of the merits of increasing the supply of rental housing, the STIR program is not revenue neutral and the waiver of the development cost levies and reduction in tax revenue will affect the City's ability to fund other public investments.

But the costs of STIR are more than just financial. STIR creates uncertainty in communities through site-specific rezonings, it creates potential conflicts with existing community objectives or expectations, and it has the potential to impact the value of land by creating expectations for increased density.

For a more detailed analysis of the numbers and costs associated with a particular STIR project, refer to "Backgrounder C – 1142 Granville Street: A STIR Case Study." The project included the creation of 106 market rental apartments, each with a floor space of 320 square feet and proposed to rent for $3 per square foot – an amount 50% higher than the $2 per square foot rental rate suggested by City Staff when STIR was approved by City Council. And there is no limitation on what the owner of the building can charge – the units will rent for what the market can bear.

Development Cost Levies of $638,000 were waived for the project under STIR because, as noted in the Report to Council, "the City Manager has determined that there is a measure of affordability for this housing". In this project only a *measure of affordability* was used to justify waiving DCL's.

The project paid no Community Amenity Contribution (CAC) because the project is deemed to experience no increase in land value, and the community received no benefit from the project other than the declaration that rental housing fulfils a community objective.

In summary, the developer paid $386 per square foot of lot area, or $110 per "buildable" square foot under existing zoning. The developer requested a 63% density bonus to accommodate STIR rental housing and achieved an increase in the permitted floor area on the site of 19,963 square feet, lowering land costs to $67.46 per "buildable" square foot of floor area. And avoided paying $638,000 in Development Cost Levies.

Further, the site will be eligible for Rental Property Assessment under STIR. City staff advise that based on estimates from BC Assessment there could be a 10 to 20 percent reduction in the assessed value of properties constructed under STIR. Because forgone tax revenues will be shared by properties in all classes as part of the tax distribution process, other taxpayers in the City end up with increased tax bills to compensate for the reduced payments on STIR projects.

An indication of the impacts of rental property assessment, were outlined by City Staff for another STIR project (1215 Bidwell Street). Staff estimated that the impact of rental property assessment would amount to approximately $17,100 per rental unit over a 60 year period. Using this as an average value, the building at 1142 Granville Street would result in a loss in City tax revenue of $1.8 million over this 60 year period. On an annual basis, 1142 Granville Street would benefit from a reduction in municipal taxes associated with the rental property assessment in the order of approximately $30,000 per year.

Regardless of the financial impacts, the desire to achieve "a measure of affordability" at 1142 Granville Street appears to have been come at the expense of living space and livability. The units at this location are so small that an exception had to be made in the development bylaw for the minimum floorspace normally required (398 square feet). The small size of these units means they will largely accommodate only single people, which will directly affect the makeup of the community.

The Flawed Legal Basis of STIR

In examining the STIR program and its legal basis, it is WEN's contention that:

1. The *Vancouver Charter* does not give the City of Vancouver the authority to waive Development Cost Levies (DCL's) for *market rental housing*.

2. The City of Vancouver has improperly delegated Council's legislative authority by granting the City Manager the discretion to determine the affordability of for-profit affordable rental housing development proposals in the manner that it has done.

3. The definition of "affordable" under the by-law is too vague and uncertain to be enforceable.

WEN considers that its position is legally supportable.

Based on these conclusions, WEN requests that the City of Vancouver cancel the STIR program and refrain from similar incentive packages to avoid providing additional development projects with inappropriate DCL waivers.

WEN requests that the City of Vancouver stop giving inappropriate benefits to developers for the creation of market rental units through granting of increased density, forgiving property taxes, eliminating community amenity requirements, reducing parking requirements and waiving DCL's on the argument that STIR is supplying "affordable" rental housing. STIR is providing market rental housing that benefits developers and the costs to the City and to its taxpayers are too high.

What Should the City be Doing?

Encouraging rental housing is a reasonable part of a municipal housing strategy. But municipalities cannot solve housing challenges on their own. Inputs, such as a changes in tax structures at senior levels of government, are necessary to allow municipalities and the private sector to create a range of housing options.

The City needs to define the term "affordable housing" in a manner that reflects past practices. Market rental housing is not by definition "affordable." And substituting laminate countertops for granite countertops is at best an inadequate effort an improving affordability.

Revised legislation is needed to ensure that the City Manager is not over-stepping the authority to declare a project "affordable" and there make it eligible for waiver of Development Cost Levies.

A basic flaw of the STIR program is the lack of parameters for increases in density. The additional density proposed in many of these projects is not being valued in a logical manner, rather rental projects are being compared to the profits arising from a condominium project of a similar size.

Rental properties offer secure, long-term income. Do they take longer to make a profit than condo projects? Of course they do. But the active market for existing rental buildings in Vancouver is a clear indication that these properties are desirable from an investment point of view.

Are some incentives necessary to encourage developers to build more rental? Yes. But these incentives need to be formatted in a manner that provides predictability to landowners, developers, the municipality and for neighbourhoods. The incentive program needs to be taken to the public for meaningful consultation. And the incentive program needs to supported by an appropriate legal framework.

The Staff Report on STIR indicated the following as an option for consideration:

- Pre-zoning a “+1” discretionary FSR (to approximate free land) for rental housing

If a “+1” FSR amounts to an approximation of free land, then an increase in FSR from 1.5 to 7.4 amounts to something far greater than that.

Other reasonable options for consideration included:

- Requiring a minimum percentage of purpose-built rental in ALL developments (inclusionary zoning) and
- Enabling discretion for 10 percent density increase for rental in transit station areas

Each of these ideas appear to have far more merit in balancing the objectives of developers to undertake economically viable developments, the municipality to achieve rental housing, and neighbourhoods to avoid the impacts of inappropriate change.

Conclusion

STIR is creating some of the most expensive rental housing in the City. It is not helping to address housing affordability – in fact it may be worsening affordability issues by encouraging some nearby multi-unit building owners to renovate suites to compete with the new units.

The program is offering incentives to developers to create market rental units with no rent cap, and to create long-term investments with almost guaranteed income for the investors attracted to these types of investments.

The rental units being created do not address the true housing needs in our City – many of the units are small and expensive on a per square foot basis, and do little to provide housing for couples or families. The quantity of rental housing being encouraged should be balanced with an evaluation of the quality of life aspects associated with these dwelling units.

Regardless of the types of units being created, the incentives offered are resulting in financial deficiencies that must be made up by other taxpayers, and the projects created are damaging livability and neighbourhood character. Public money and City Council’s discretionary zoning powers should not be used in this way.

The legal framework of STIR is flawed and the City Manager has been waiving Development Cost Levies for these developments without property authority. These waivers must be stopped, and a revised rental incentive program should be established. Residents must have confidence that their City administration is being operated in a transparent and legal manner and while STIR is a program with worthy goals, it is one which has been rushed into the implementation stage without sufficient consultation or analysis.

Backgrounder A – Development Cost Levies

Urban expansion and development often leads directly to an increase in the demand for sewer, water, drainage, parks and roads. DCL's (known as Development Cost Charges or DCC's in most other municipalities) are funds that municipalities and regional districts collect from property developers to offset the portion of the servicing and infrastructure costs incurred as a direct result of new development.

Typically, DCL's fund municipal-wide infrastructure, rather than services and infrastructure directly related to a particular development. For example, DCL's might fund a local park improvement or a major sewer system upgrade, rather than providing a sidewalk or traffic signal adjacent to a particular development project. For most large residential developments in Vancouver, DCL's would be $10.42 per square foot of building built, but the charge can vary by neighbourhood.

DCL's are an important financial tool used by municipal governments to help fund important public facilities and services and to ensure that new developments pay their fair share of the cost of growth. In the City of Vancouver, the limited resources available through tax collection means that DCL's provide a critical source of funding for undertaking needed infrastructure maintenance and improvements.

As indicated by the City of Vancouver:

> Development Cost Levies (DCLs) collected from development help pay for facilities made necessary by growth. Facilities eligible for DCL funding include: parks, child care facilities, replacement housing (social/non-profit housing), and engineering infrastructure.
> The DCL by-laws establish the boundaries, set the rates, and describe how to calculate and pay the levy. Levies collected within each DCL district must be spent within the area boundary (except replacement housing projects which can be located outside). This Bulletin provides general information about DCLs: for precise information you should refer to the DCL by-laws.

Information on the Bylaws regulating DCL's is located here:

Vancouver Development Cost Levy By-Law
http://vancouver.ca/bylaws/9755c.PDF

Area Specific Development Cost Levy By-law
http://vancouver.ca/bylaws/9418c.PDF

DCL's are payable as condition of Building Permit issuance and the levy is calculated at the rate in effect on the date of issuance.

More information on DCL's and their role in financing growth is available from the City of Vancouver at this link:

http://vancouver.ca/commsvcs/planning/financinggrowth/index.htm

Backgrounder B - Vancouver Charter Amendments

Section 523D of the *Vancouver Charter* was amended by adding subsections 10.2 through 10.5:

> (10.2) A by-law made under this section may establish an area for the purposes of subsection (10) (b.1) (i) that is greater than the area otherwise applicable.
>
> (10.3) In subsections (10.4) and (10.5), **"eligible development"** means development that is eligible in accordance with an applicable by-law under this section as being for one or more of the following categories:
>
> > ***(a) for-profit affordable rental housing*;**
> > (b) a subdivision of small lots that is designed to result in low greenhouse gas emissions;
> > (c) a development that is designed to result in a low environmental impact.
>
> (10.4) Subject to a by-law under subsection (10.5), the Council may waive or reduce a levy under this section for an eligible development.
>
> (10.5) For the purposes of subsection (10.4), *the Council, by by-law*
>
> > *(a) <u>shall establish what constitutes an eligible development or a class of eligible development</u> for the purposes of one or more categories of eligible development described in subsection (10.3),*
> >
> > *(b) <u>shall establish the amount or rates of reduction for an eligible development</u>, which may be different for different categories of eligible development described in subsection (10.3) or different classes of eligible development established in the by-law,* and
> >
> > (c) may establish the terms and conditions that must be met in order to obtain a waiver or reduction under subsection (10.4).

Backgrounder C – City Staff Report Introducing STIR

The City of Vancouver's Report to Council of June 2, 2009 provides details on the STIR program. The entire report can be accessed at the following link:

http://vancouver.ca/ctyclerk/cclerk/20090616/documents/ttra2.pdf

Key components that help highlight some of the financial issues associated with STIR are noted below:

- Page 3:

  "There are risks associated with the program that include foregone short term revenue for operations (tax income) and public benefits (DCL [*development cost levy*] waiver)…The STIR program is not a revenue neutral program and has the potential to generate consequences to City operations, most notably:
  - Prioritization of rental housing at the expenses of other City priorities (i.e. Social Housing, Community Amenities); and
  - Financial incentives that will reduce available funding and potentially limit the City's ability to deliver on other programs and amenities."

- Page 4 and 5:

  "Pursuant to Section 523 D of the *Vancouver Charter*, Council has the authority to waive or reduce a levy for an "eligible development" including "for-profit affordable rental housing". For the purposes of this initiative, "for-profit affordable rental housing" is to mean "three or more dwelling units designated to new rental housing subject to the provision of a legal agreement between the City and the property owner secure the rental housing units."

- Page 17 and 18:

  "The STIR program can assist with affordability by increasing the rental housing stock. *Rental housing is more affordable than ownership housing because for a comparable unit, rents are much lower than a mortgage payment*. Most renters cannot afford to buy a home as they cannot make the necessary down payment or qualify for financing, and could not pay the mortgage without compromising on other necessities such as food and transportation. The median income of renter households ($34,000) is half of that of ownership households ($66,000). Further a higher portion of renter households are in core housing need (31 percent) compared to ownership households (11 percent). (A household is in core need if it has to pay more than 30 percent of its gross income to rent a unit that is in good repair and of the right size for the household.)

  Affordability can be enhanced by reducing development costs which the STIR program provides through reduced parking standards, development cost levy wavier, etc. Affordability can also be achieved through location and design features. For example, smaller units are less expensive, and as noted earlier, the Director of Planning has the discretion to permit units of 29.7 square metres (320 square feet), building and unit finishes are also considerations in providing affordability. This report recommends that staff seek affordability in projects submitted for STIR incentives through finishing, size, location and other design considerations."

- Page 20:

  "Waiving development cost levies for rental housing units produced under the STIR program will reduce the revenue that might be expected from development and affect those public benefits that are traditionally funded from DCLs such as affordable housing, child care, parks, and streetscape improvements. The impact of forgone revenue is estimated to be approximately $7,600 per unit."

Backgrounder D – 1142 Granville Street: A STIR Case Study

One of the first rezoning projects approved under STIR is the project 1142 Granville Street. The project is currently under construction and proposes to include 106 market rental apartments, each with a floor area of 320 square feet.

Development statistics on the project are as follows:

Address: 1142 Granville Street
Site area: 8,993 sq. ft.

FSR under original zoning: 3.5
Original permitted floor area: 31,476 sq. ft.

FSR approved under new zoning: 5.72
New permitted floor area: 51,439 sq. ft.

Price paid for land: $3.47 million
Cost of land per sq. ft. of land area: $386
Cost of land per buildable sq. ft. under original zoning: $110.24
Cost of land per buildable sq. ft. under new zoning: $67.46

Dwelling Unit Count: 106
Dwelling Unit size: 320 square feet
Rent per Square Foot: $3.00

DCL's Waived under STIR: $638,000
CAC's paid under STIR: $0
Estimate of Reduced Property Taxes over life of building: $1.8 million

In summary, the developer paid $386 per square foot of lot area, or $110 per "buildable" square foot under existing zoning. The developer requested a 63% density bonus to accommodate STIR rental housing and achieved an increase in the permitted floor area on the site of 19,963 square feet, lowering land costs to $67.46 per "buildable" square foot of floor area. The STIR program also allowed the developer to avoid avoided paying $638,000 in Development Cost Levies and any Community Amenity Contribution in relation to the increase in zoning potential for the property.

The site will be eligible for Rental Property Assessment under STIR and City staff advise that based on estimates from BC Assessment there could be a 10 to 20 percent reduction in the assessed value of properties constructed under STIR. Because forgone tax revenues will be shared by properties in all classes as part of the tax distribution process, other taxpayers in the City end up with increased tax bills to compensate for the reduced payments on STIR projects.

For the STIR project at 1215 Bidwell Street, City staff estimated that the impact of rental property assessment would amount to approximately $17,100 per rental unit over a 60 year period. Using this as an average value, the building at 1142 Granville Street would result in a loss in City tax revenue of $1.8 million over this 60 year period. On an annual basis, 1142 Granville Street would benefit from a reduction in municipal taxes associated with the rental property assessment in the order of approximately $30,000 per year – a reduction in annual operating costs for the building owner.