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Barry Konkin
Manager of Policy Planning
City of Richmond
6911 No. 3 Road
Richmond BC V6Y 2C1

Dear Mr. Konkin:

Re: Proposed Rental Tenure Zoning and Inclusionary Zoning Policies

I would like to thank your staff for meeting with representatives from the Urban Development Institute (UDI) to discuss proposals to utilize the new rental tenure zoning power and increase the rental housing stock in Richmond. We appreciated the opportunity to provide our comments at the UDI Sub-committee meeting held on May 28, 2019 and the Richmond Liaison Committee meeting on June 12, 2019. This issue is important to our membership, as many are actively seeking to build rental housing. Since our meetings, we have had the opportunity to receive further feedback from our members, and respectfully provide our comments below.

Consultation

While the consultation process thus far has been positive for our Richmond Liaison Committee members, concerns have been raised about some aspects of the engagement process. We have heard from landowners and rental housing operators who have received little information regarding the proposals to rezone their sites to rental only, and that outreach was only conducted after the initial report to Council. We recommend that the City have further direct discussions with impacted owners.

In addition, as discussed at the June 12 meeting, our members were concerned that the survey on the rental policies was written in a way that could skew the results to support staff's proposals. For example, the survey provided background regarding the potential of inclusionary zoning in High Density Apartment Residential Zones, describing the benefits associated with this type of policy and inferring that it was the vehicle to secure rental units. Following this introduction, respondents were asked whether, "[They] believe that requiring market rental units in existing higher density apartment zones should be mandatory." We feel that a balanced approach was not achieved through this survey and that it may not have provided respondents with comprehensive information to inform their responses. We suggest that the City consider this when assessing the results of the survey.

Rental Tenure Zoning

UDI was originally supportive of rental tenure zoning if it was used to encourage the construction of more purpose built rental housing, in conjunction with incentives. For example, if a local government up-zoned a single-family area to multi-family, or a commercial zone into residential, it would be appropriate to require the new use and/or density to be purpose built rental housing. However, this is not what is being proposed under the proposed Rental Tenure Zoning policy. The power is instead being used to downzone sites.

As was clearly conveyed in our consultation sessions, our members are very concerned with local governments using their new rental tenure zoning power to downzone properties. This would send the wrong signal to builders who are interested in providing purpose-built rental housing units in Richmond. Our members and the lending institutions who finance their projects rely on stable and predictable regulatory frameworks. This is even more true for rental projects, which have investment timeframes that are decades long. Downzoning and devaluing sixty sites would undermine the confidence of investors and may have lasting impacts on Richmond's housing market.

Reducing the value of properties also has another unintended consequence. Builders, whether they be for-profit, non-profit or government, use the value of their sites to leverage loans for future projects. If their portfolios are worth less, their borrowing capacity to build future projects is reduced.

It is not clear why it is necessary for the City to apply rental tenure zoning to existing rental buildings. The City already mandates a 1:1 replacement policy for any rezonings of the current rental stock. It does not make economic sense for a builder to redevelop an existing rental housing building without density increases (which would require a rezoning and Council approval). This is what Burnaby staff found in their municipality. Last year in New Westminster, Coriolis conducted an analysis for their Rental Replacement Policy and the sites they "… *analyzed have higher values under existing use as rental apartment buildings (i.e. the value supported by the net income generated by existing improvements) than the existing zoned land value*." We recommend that the City hire an independent third party to conduct a pro-forma analysis to determine, which of the sixty sites require further protection before proceeding with a mass downzoning. If there are a few sites that may be vulnerable, we suggest that staff explore negotiating Housing Agreements (that include incentives) with the owners of those properties.

Inclusionary Rental Zoning

Given the findings in Richmond's Coriolis report, we have serious concerns if the City moves forward with a mandatory inclusionary zoning policy in which a minimum of 10% of the floor area would have to be market rental housing. As described in the City's own report, under the current incentives provided, building purpose-built rental housing is not a viable option. For concrete build forms under existing conditions, building market rental would result in a loss of over $45,000 per rental unit. Even with the potential DCC and tax waivers analysed in the report, costs were still prohibitive to build market rental housing in all case studies explored.

While the report cited the significant construction cost increases in 2018 and recent changes to the Residential Tenancy Act Rent Regulations limiting the ability of landlords to increase rents over time, builders will soon face even higher costs as the following changes are put into place:

- Increasing Energy Step Code requirements for new construction;
- New TransLink DCCs coming into effect on January 1, 2020; and
- And potentially the *Budget 2018* provincial taxes that apply to development lands, including the Additional School Tax and the "Luxury" Property Transfer Tax.

These cost pressures are also occurring at a time when the housing market is slowing down - in part because of tax and fee increases - but also because of Government demand side measures such as the Office of the Superintendent of Financial Institutions B-20 Guideline that came into effect in 2018. The current market conditions are making it more difficult to construct all forms of housing, including strata, which would be necessary to subsidize market rental units.

According to MLA in the Greater Vancouver and Fraser Valley, about 5,000 concrete units within 17 development projects have been postponed and there have been "*… decreases in housing starts by up to 20 per cent province-wide …".* Altus notes in the City of Vancouver, 20% of the approved units are in projects that have been abandoned. In fact, Vancouver staff recently informed UDI that "*As a result of the current residential market downturn, staff are recommending that Council waive the 2019 inflationary rate adjustment for all residential rate categories*," for Development Cost Levies, Community Amenity Contributions and Density Bonuses.

Despite these challenges, many of our members are interested in delivering more rental housing in Richmond and in other municipalities. This includes pension funds, REITs and builders who want to expand their portfolios to leverage financing for future projects and to have improved cash flow/ongoing revenues. UDI recommends that the City move away from establishing mandatory inclusionary requirements for market rental housing to creating additional voluntary incentives for builders to invest in it. We specifically recommend the following:

- The City should consider amendments to the application of the current waiver system, exempting market rental housing buildings and units from a number of City requirements such as the *LEMR* policy/*Affordable Housing Strategy* charges, DCCs, Public Art fees and requirements, the Daycare policies, and the Community Planning Contribution Fee. Proponents would still need to comply with those policies for the strata units within their mixed tenure buildings – but we ask that they not apply to any market rental units that are incorporated into projects.

- The City review reducing its parking requirements further – especially for rental units. Parking stalls cost $25,000 to $40,000. UDI has supported the City's previous progressive steps to lower parking standards. However, we still believe more can be done because of improved transit in the City and societal changes. Metro Vancouver's Transit Oriented Affordable Housing Study released earlier this year, found that on average 42% of parking stalls across the region were unused. Any reduction in these substantial costs would be a key incentive for our members to build rental housing.

- We also recommend that the savings from lower parking requirements not be diluted by increased Traffic Demand Measures (TDM) if parking is reduced. Originally TDM were designed to help residents avoid owning cars and also to compensate municipalities if there were higher off street parking use. With the current shift towards other modes of transportation, the incentive is no longer needed to reduce car usage.

- The City could go even further and allow the equivalent space saved from the parking reductions to be added to the FAR of a project - if that space is used for market rental housing. Although, it is difficult to add density in Richmond because of the issues with soils, those soil issues mean the replaced parking spaces will be located on or above the main floors of buildings, which is appropriate for housing.

- Beyond parking requirements, the City could also look at lowering construction costs by reducing Richmond's requirements for electric vehicle charging, the Energy Step Code and District Energy for purpose built rental buildings. Long-term owners who have an interest in protecting the value of their investments would purchase these rental buildings. As such, they are in a good position to determine what is needed in their buildings.

- As noted in our March 16, 2018 letter on the draft *Market Rental Housing Policy*, "*Richmond needs to be much more aggressive with the density bonusing to meaningfully increase market new rental housing projects in the City*." We recommended that the City review density on a site-by-site basis to determine where densities could be increased enough to add a substantial number of market rental housing units on key sites. The focus of such a review would be for properties outside the YVR flight paths. Specifically, we suggested "… *older shopping centres (and adjacent properties), older strata projects that are facing high maintenance costs, and sites along Spires Road and Citation Drive*."

  As we suggested last March, if the City were to adopt such an approach, "*Richmond would need to make it clear to the land market that new density increases (or a percentage of them) on these sites are for rental housing, or land prices will escalate, and make building rental difficult*." We acknowledge the unique challenges facing Richmond, particularly the soil conditions and overhead flight path, however these considerations make it even more important for the City to allow increased density in areas less impacted by these conditions.

- In addition to the above, there is a good opportunity to explore increasing densities around schools with low enrollments, which could be candidates for closure. Neighbourhoods may be more inclined to accept growth to ensure that their local schools remain open. These areas could be prime areas for family-sized rental housing units.

- The City could also improve development review times for projects by formalizing a fast-track system for rental and removing steps from the process for purpose built rental projects. For example, these projects could be exempted from the Urban Design Panel, or as noted above the Public Art Committee if the Public Art requirement is waived. By creating a formal fast-track program with fewer steps it would send a clear signal to the industry that these projects will be approved more efficiently.

- Finally, we would like to reiterate our support for waiving property taxes for market rental units. Coupled with other incentives (eg. DCC waivers and reductions in construction costs), property tax exemptions could encourage builders to add market rental units to their projects - even if it is for a set period (e.g. five to ten years). This incentive is particularly advantageous because through *Budget 2018* the Province is committed to matching local government property tax exemptions. As shown in the Coriolis report, the combined impact of these incentives would be substantial, however additional incentives will be required in order to make market rental projects viable.

We thank staff again for meeting with UDI regarding these proposals, and ask that you consider our recommendations and reflect them in the report to Council. Our members believe these suggestions will make the policies workable so that builders can help the City achieve its goals. UDI would be pleased to discuss our ideas further with staff. We look forward to working with Richmond on this and other initiatives.

Yours sincerely,

Anne McMullin
President & CEO