



City of Port Moody

Report/Recommendation to Council

Date: March 7, 2022
Submitted by: Community Development Department – Policy Planning Division
Subject: Inclusionary Zoning Policy – Affordable Rental Units

Purpose

To present the findings of the economic analysis resulting from a 15% Below Market residential area component, and the related draft Inclusionary Zoning Policy – Affordable Rental Units.

Recommended Resolution(s)

THAT Corporate Policy - 10-5080-2022-01 - Inclusionary Zoning - Affordable Rental Units be endorsed as recommended in the report dated March 7, 2022 from the Community Development Department – Policy Planning Division regarding Draft Inclusionary Zoning Policy – Affordable Rental Units.

Executive Summary

The Inclusionary Zoning Policy – Affordable Rental Units is a draft policy that explains the City's expectation for affordable housing as part of new multi-family residential and mixed-use residential development applications where additional density is being sought through a rezoning and/or Official Community Plan (OCP) amendment.

This report discusses the background directions from Council on creating an inclusionary zoning policy, the analysis performed by the City's consultant, and the components of the draft Inclusionary Zoning Policy – Affordable Rental Units.

Background

At the Regular Council meeting on July 14, 2020 Council considered a report (**Attachment 1**) from the Affordable Housing Task Force dated June 16, 2020, and passed the following resolutions:

RC20/285

THAT staff be directed to carry out the eight recommendations of the Affordable Housing Task Force as presented and recommended in the report dated June 16, 2020, from the Affordable Housing Task Force regarding Final Report from the Port Moody Affordable Housing Task Force;

AND THAT staff report back on timeline implications, and how the recommendations will be implemented.

In the June 16, 2020 report, the Task Force provide the following additional direction on Inclusionary Zoning:

While crafting an inclusionary zoning policy for Port Moody, investigate the adoption of the three-tiered approach, similar to New Westminster, which looks at percentage of housing such as 12.5% affordable, 20% below CMHC, and 6% at shelter rates. For projects that are in compliance within Official Community Plan (OCP) guidelines, develop a suite of incentives and development options. For projects seeking OCP amendment and/or exceeding established density thresholds, or in TOD areas, these should have policy provision of a minimum of 20% of total units or floor area as built affordable units; number of units and rental rates subject to discussions with Council and senior governments, and consideration of other amenities, such as projects in the TOD that include a significant component of employment space. Units may be owned by developer with occupancy management by a non-profit or BC Housing in perpetuity, or sold to a non-profit or BC Housing at below-market value. The Affordable housing task force suggests that inclusionary zoning should apply to all developments over 80 units, with townhouse developments requiring additional contributions to the Affordable Housing Reserve Fund, as per revised policy. This is the preferred type of policy recommended by the Affordable Housing Policy; however, due to differences between municipalities regarding density and/or height restrictions, these recommendations would need be fulfilled in a Port Moody specific context.

At the Closed Council Meeting on November 9, 2021, Council received a memo and presentation from staff and Coriolis Consulting on the initial findings regarding the feasibility of an inclusionary zoning policy (**Attachment 2**) which was later released at the March 8, 2022 Regular Council Meeting. In response, Council passed the following resolution:

CC21/175-176

THAT staff be directed to report back with a draft Inclusionary Zoning Policy as recommended on pages 15-16 of the report dated June 16, 2020 from the Affordable Housing Task Force, using FAR instead of percentages and using 15% instead of 12.5%.

This report presents the draft Inclusionary Zoning Policy – Affordable Rental Units (**Attachment 3**) as directed by Council and discusses the feasibility of an affordable rental component comprising of 15% of the total residential Floor Area Ratio (FAR) as part of new multi-residential and mixed-use residential development applications where additional density is being sought through a rezoning and/or Official Community Plan amendment.

Discussion

The draft Inclusionary Zoning Policy – Affordable Rental Units states that future redevelopment applicants are required to meet the City's expectation for a below-market housing component in new multi-residential and mixed-use residential development applications where additional density is being sought through a rezoning and/or Official Community Plan amendment.

In support of the work, staff procured Coriolis Consulting to undertake a financial analysis to assess whether a mandatory affordable housing component of 12.5% of the residential FAR would be viable in the context of development in Port Moody, as previously directed by Council.

On May 5, 2021, staff and the consultant held a workshop on inclusionary zoning with developers who work in Port Moody. The purpose of this workshop was to make the development community aware of the project scope, and to receive feedback to consider in the development of the policy. Feedback included the need for potential incentives to offset costs associated with the provision of affordable housing, consideration of balancing desired community amenities, and establishing a consistent application of policy.

In response to Council's direction at the November 9, 2021 Closed Meeting, Coriolis Consulting has tested the viability of a 15% minimum threshold, and staff have drafted an inclusionary zoning policy reflecting a requirement for 15% of the FAR for affordable rental units.

Inclusionary zoning policies from the Cities of New Westminster, North Vancouver, Richmond, Victoria, and Burnaby were taken into consideration when crafting Port Moody's policy. The City's inclusionary zoning policy expectations reflects these municipalities' inclusionary zoning policies, while adapting components to meet the City's development practices and policy context.

Summary of the Financial Analyses

Coriolis Consulting analyzed the financial feasibility of 20 different development scenarios in Port Moody (**Attachment 4**). Six different sites were selected by staff and the consultant that are representative of the typical redevelopment properties in the City, spanning a cross section of locations, OCP designations, existing zoning, and existing use. Coriolis Consulting then analyzed the likely financial performance of a wide range of different redevelopment scenarios at the six different sites. More information on the development sites and scenarios can be found on page 12 of consultant's report.

A below market requirement in the range of 12.5% to 15% of the residential FAR of a building would result in a significant reduction in the number rezonings that would be financially viable. Of the scenarios tested, a 12.5% requirement would reduce the number of viable scenarios by about 50%, and a 15% requirement would reduce the number of viable scenarios by about 65%.

Other significant impacts that were found with a 15% affordable housing component were:

- Townhouse and lower density market-rental apartment rezonings cannot support any below market units. The testing indicated that a minimum market residential density of about 2.0 FAR is likely required before a rezoning can make any material contribution toward affordable housing.
- For rezonings of four storeys or less, a below market component in the 12.5% to 15% range impacted the viability of 60% (12.5% below market) to 100% (15% below market) for the test sites.
- For rezonings of six storeys or more, a below market component in the 12.5% to 15% range impacted the viability of about 45% of the test sites. Those sites that were viable assumed 100% of the assumed bonus density the City collects on projects above 2.5 FAR is put towards the affordable housing component.

- The 20% below market component would only be viable in unique situations. To achieve this target, sites would need to have very low existing values under current zoning and be rezoned to very high permitted residential densities. There are likely few sites in Port Moody that meet these criteria.

Table 1 summarizes the impacts of a below-market component on development scenarios at 12.5% FAR and 15% FAR.

Table 1

Financial Impacts at Sites Tested				
		Impact on Land Value	Impact on Density Bonus Value	Number of Viable Scenarios
12.5% FAR Below Market Component	Townhouse	18% - 24%	None	0 of 4
	Market Rental	31%	None	0 of 2
	4 Storey	23% - 40%	None	2 of 5
	6 Storey	17% - 29%	100%	3 of 5
	Highrise	32% - 36%	39% - 40%	2 of 4
15% FAR Below Market Component	Townhouse	21% - 27%	None	0 of 4
	Market Rental	32% - 35%	None	0 of 2
	4 Storey	27% - 47%	None	0 of 5
	6 Storey	22% - 37%	100%	3 of 5
	Highrise	39% - 43%	44% - 48%	2 of 4

The impact of a below market housing requirement on project viability will change over time as the value of the market component of the project changes. If strata unit prices rise over time, the impact of a below market requirement on project viability will lessen. If strata prices decline, the impact of a below market requirement will increase.

While the intention of the policy is to create additional new affordable rental units, a 15% FAR below-market component will likely have an adverse effect on development applications in the short-term compared to a below-market residential component of 12.5% FAR. In the near future this could result in fewer new market dwelling units and affordable rental units, or additional requests for relaxations to the policy from future applications.

As a result of these findings, staff has created a draft inclusionary zoning with a 15% FAR below-market component that responds to this financial analysis, and mitigates some of the effects an inclusionary zoning policy would have for applications proposing a residential density less than 2.0 FAR.

Components of the Draft Inclusionary Zoning Policy – Affordable Rental Units

Below, sections of the draft Inclusionary Zoning Policy – Affordable Rental Units are discussed to provide further insight and clarification.

Key Expectations

The City expects, as part of any rezoning and/or OCP amendment application, that an affordable housing component would be included in the form of Below-Market Rental Units and/or Non-Market Rental Units. The inclusionary zoning policy would apply to any projects proposing a residential density greater than 2.0 FAR. The City would then require either:

- a minimum 15% of residential FAR as Below-Market Rental Units; or,
- a minimum 6% of residential FAR as Non-Market Rental Units.

Affordable Rental Units may be owned by the private sector with occupancy management arranged through a non-profit society or BC Housing or sold to a non-profit society or BC Housing at below-market value. The City will request confirmation of these arrangements prior to adoption of the requested land use changes.

Other key expectations include:

- Any Affordable Rental Units are required to be secured for 60 years or the useful life of the building; and
- Projects resulting in 10 or more affordable units should provide a unit mix as set out in the following table:

Number of Bedrooms	Share of Units	Minimum Unit Floor Area
Studios	70% max	33m ² (350ft ²)
1-Bedroom		49m ² (525ft ²)
2-Bedroom	20% min	67m ² (725ft ²)
3-Bedroom	10% min	86m ² (925ft ²)

The Minimum Unit Floor Area is based on BC Housing Design Guidelines and Construction Standards.

When determining the value of an amenity contribution under the density bonus policy (section 7.0 of the Zoning Bylaw), the estimated value of the residential density above 2.5 FAR should account for the financial impact of the portion of the density bonus that is affordable rental housing. The estimated value of the density bonus should assume that the density bonus floorspace includes the same percentage of floorspace for Affordable Rental Units as proposed for the overall residential FAR of the entire project. For example, if the overall residential floorspace in the proposed project includes 15% for Affordable Rental Units, then the density bonus FAR includes 15% for Affordable Rental Units.

Staff comments on Key Expectations

As noted through the financial analysis, a below-market FAR component of 15% means only 5 of the 20 scenarios are financially viable, and none of the scenarios below six-storeys. To support the construction of below-market rental units, staff are proposing the Inclusionary Zoning Policy be applied to any projects proposing a residential density greater than 2.0 FAR.

Projects that fall below the 2.0 residential FAR threshold will still be expected to meet the Community Amenity Contribution Program expectations. This will also ensure the Affordable Housing Reserve Fund (AHRF) will continue to be funded by future development applications.

Lastly, any project exceeding a residential density above 2.5 FAR would be expected to include a 15% affordable rental contribution in the Density Bonus floorspace. This will ensure that 15% of the total residential component will always be affordable rental.

All other key expectations are recommended to remain the same as those in the current Interim Affordable Housing Guidelines (**Attachment 5**).

Flexibility

The City may allow for flexibility on the above options under certain specific scenarios, including:

- where the applicant can demonstrate unique development circumstances and financial hardship that may impact development viability, and would jeopardize the delivery of a community amenity;
- where the development application includes existing market rental properties that are subject to the City's Rental Protection Corporate Policy; and
- where the proposal includes other community benefits (e.g. social, environmental, cultural) with a demonstrable value.

If the applicant is of the opinion that it is not financially feasible for its proposed rezoning to provide the Affordable Rental Units outlined in this policy, an economic analysis conducted at the applicant's expense may be used to determine the amount of floor area for Affordable Rental Units to be provided in a proposed development. This analysis is to be completed by an independent third-party consultant or appraiser agreed upon by the developer and the City of Port Moody, who would be engaged by the City and paid for by the applicant. Alternatively, at the City's determination, the analysis may be undertaken by an employee of the City qualified to perform such analyses. The applicant is required to provide sufficient information to support the analysis, that includes detailed hard and soft cost estimates for the project (from a third-party contractor or quantity surveyor), an appraisal (or valuation) supporting any valuations under existing use and existing zoning, as well as any other information that the City (or its consultant) requires.

Staff comments on Flexibility

The three scenarios listed above are consistent with the City's Interim Affordable Housing Guidelines. Staff propose to maintain this flexibility in the Inclusionary Zoning Policy to ensure applications that face unique challenges would not be unduly affected by the financial costs of providing an affordable housing component. To demonstrate unique development circumstances and financial hardship that may impact development viability, a financial analysis will be required.

Additional flexibility is also suggested when an application provides a community benefit that meets a community need outside of the affordable rental units listed in this policy. This option

would likely only be exercised when the community benefit is demonstrated to have a similar value as the required affordable housing component.

Incentives

The City may consider the following types of incentives, subject to all applicable policies and bylaws:

- consideration of additional height beyond OCP height limits on a project-by-project basis;
- The Affordable Rental Units FAR will not be subject to community amenity contributions;
- consideration of a reduced parking space standards for Affordable Rental Units. 0.20 spaces per studio and one-bedroom dwelling unit; 0.50 spaces per two-bedroom dwelling unit; 0.75 spaces per three-bedroom or more dwelling unit, subject to a technical assessment, prepared by a qualified transportation professional, that adequately demonstrates parking space demand for the Affordable Rental Units, and that is accepted by the City;
- consideration of variances to Zoning Bylaw requirements on a project-by-project basis when it is demonstrated as a requirement; and
- consideration of additional fee waivers or reductions (DCCs, property taxes, etc.) on a project-by-project basis when it is demonstrated as a requirement.

Staff Comments on Incentives

Many of the incentives provided in the draft Inclusionary Zoning Policy were contained in the Interim Affordable Housing Guidelines policy. Staff have made the following additions:

1. Consideration of additional height beyond OCP height limits on a project-by-project basis. With a mandatory affordable housing contribution, the density bonus the City of Port Moody currently collects on projects over 2.5 FAR will be significantly affected by the costs of providing the affordable housing units. With a 15% below-market housing contribution it is expected that 100% of the assumed density bonus value would be subsumed in a 6-storey development, and 44%-48% of the assumed density bonus value in a high-rise project.

Unlike other BC municipalities with inclusionary zoning policies, Port Moody's density bonus system does not include base density and bonus density allowances for redevelopment sites. Rather, the City's density bonus policy establishes the collection of the equivalent of 75% of the land value of additional density above a FAR of 2.5. Permitted project density is controlled through maximum height allowances noted in the OCP and FAR provisions for specific zones in the Zoning Bylaw.

Other municipalities with inclusionary zoning policies have density bonus systems which can stipulate multiple levels of density achievable in exchange for cash contributions, amenities, and/or in-kind amenities, such as affordable housing. The density bonus structure is associated with a building's zoning, so different zones will be tied to individual bonus densities.

The effects of the City's density bonus system on the inclusionary zoning program means that no situations were found where developments can support the creation of

below-market units and still pay density bonus funds for other municipal priorities in projects that are six-storeys or less.

If Council is interested in maintaining some of the density bonus funds for other City priorities, staff recommends consideration of additional height beyond OCP height limits be considered to offset the costs associated with the affordable housing component. Alternatively, Council could reduce the affordable housing components for projects that are six-storeys or less.

It is important to note that the \$4.00 per 0.09m² (1ft²) of the voluntary Community Amenity Contributions (CACs) will still be collected for the non-affordable housing component of all projects with the inclusionary zoning program in place.

2. The consideration of reduced parking space standards for Affordable Rental Units. One of the recommendations from the Report to Council by the Affordable Housing Task Force was to consider city-wide relaxations for affordable housing as part of incentives for inclusionary zoning.

The suggested new reduced parking space standard for Affordable Rental Units will be subject to a technical assessment, prepared by a qualified transportation professional, that adequately demonstrates parking space demand for the affordable rental units.

Exemptions

The following are exempted from the requirement to include an affordable housing component as part of a development application:

- projects where 100% of the residential component is Market-Rental Units;
- projects proposing a residential density less than 2.0 FAR;
- applications submitted prior to Council approval of this policy where additional density is being sought, though provision of an affordable housing component is still expected of all applications involving a rezoning and/or OCP amendment.

Staff Comments on Exemptions

Recommended exemptions to the inclusionary zoning policy have been selected based on anticipated circumstances where there is financial infeasibility resulting from the inclusion of a 15% affordable housing component, but the overall project is delivering on other priority community objectives.

Analyses on projects proposing a residential density less than 2.0 FAR found that they were not able to absorb the costs associated with the affordable housing component as set out in the policy. This limitation was also found at the 12.5% below-market rental component level in all but two of the five four-storey project test sites.

Exemptions from the inclusionary zoning policy are included for projects where 100% of the residential component is market rental, given the need for this type of housing tenure, and the difficulty of financing these projects. Market rental housing is an important component of the housing market and, while the City has seen an increase in the new market rental units in recent

years, there is still a need for more market rental units due to the aging condition of most of the City's market rental stock constructed in the 1960's and 1970's. Supporting the consistent creation of market rentals will assist in meeting the demands for this housing type in the future.

Cash-in-lieu Contributions

The City may consider cash-in-lieu contributions to the City's Affordable Housing Reserve Fund under circumstances where the provision of Affordable Rental Units or other eligible units is not seen as desirable and or feasible (e.g., where it results in four or fewer Affordable Rental Units being provided). Cash-in-lieu contributions shall be established by way of agreement, or failing agreement, as determined by a qualified independent analyst to be selected by the City and at the applicant's expense.

Staff Comments on Cash-in-lieu Contributions

In previous conversations with non-profits, staff learned that very few operators will manage four or fewer below-market units. For projects that would result in four or fewer below-market units, staff's recommendation is to request a negotiated cash-in-lieu contribution that would be added to the AHRF. With the value of units likely to significantly change year-to-year, staff are wary of accurately capturing the value of the units with a set amount. Instead, a negotiated approach before a development permit is issued will more likely ensure the City is adequately compensated for the units.

Next Steps

If the Inclusionary Zoning Policy is endorsed by Council, the development application metrics approved in March will be updated to ensure consistency with the policy's below-market and non-market rental requirements. Pending Council feedback on the draft Inclusionary Zoning Policy – Affordable Rental Units, staff and the consultant will host a second developer workshop to review the Council-approved policy.

Over the next year, staff will monitor the inclusionary zoning policy, and report back to Council on its effects, providing potential alterations to the policy, if needed.

Other Option(s)

1. THAT the draft Corporate Policy – Inclusionary Zoning be amended as directed by Council.
2. THAT the draft Corporate Policy – Inclusionary Zoning be reviewed with development stakeholders prior to Council endorsement of the policy.

Financial Implications

There are no financial implications with receiving this report. The adoption of the Inclusionary Zoning Policy could affect the amount of funding the City collects through its density bonus provision.

Communications and Civic Engagement Initiatives

Staff and the consultant held a workshop on inclusionary zoning with developers who work in Port Moody on May 5, 2021. The purpose of this workshop was to make the development community aware of the project scope, and to receive feedback to consider in the development

of the policy. An additional meeting with the representatives from the development industry is planned once the inclusionary zoning policy is endorsed by Council.

Council Strategic Plan Objectives

The recommendation in this report aligns with the following Council Strategic Objective:

- plan for a variety of housing types to meet community needs.

Attachment(s)

1. Final Report from the Port Moody Affordable Housing Task Force
2. Inclusionary Zoning Policy and Family-Friendly Units Policy – Initial Findings.
3. Draft Corporate Policy - 10-5080-2022-01 - Inclusionary Zoning - Affordable Rental Units.
4. Financial Analysis Inputs to an Inclusionary Zoning Program for Port Moody
5. Corporate Policy - 10-5080-2020-01 - Interim Affordable Housing Guidelines.

Report Author

Liam McLellan
Social Planner II

Report Approval Details

Document Title:	Inclusionary Zoning Policy – Affordable Rental Units.docx
Attachments:	<ul style="list-style-type: none">- Attachment 1 - Final Report from the Port Moody Affordable Housing Task Force.pdf- Attachment 2 - Inclusionary Zoning Policy and Family-Friendly Units Policy – Initial Findings.pdf- Attachment 3 - Draft Corporate Policy - 10-5080-2022-01 - Inclusionary Zoning - Affordable Rental Units.pdf- Attachment 4 - Financial Analysis Inputs to an Inclusionary Zoning Program for Port Moody.pdf- Attachment 5 - Corporate Policy - 10-5080-2020-01 - Interim Affordable Housing Guidelines.pdf
Final Approval Date:	Apr 12, 2022

This report and all of its attachments were approved and signed as outlined below:

Mary De Paoli, Manager of Policy Planning - Apr 7, 2022 - 3:02 PM

Kate Zanon, General Manager of Community Development - Apr 7, 2022 - 3:26 PM

Rosemary Lodge, Manager of Communications and Engagement - Apr 7, 2022 - 4:37 PM

Paul Rockwood, General Manager of Finance and Technology - Apr 8, 2022 - 4:03 PM

Tim Savoie, City Manager - Apr 12, 2022 - 12:46 PM