

AFFORDABLE B.C.: WHAT CAN LOCAL GOVERNMENTS DO?

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Housing affordability is a crisis for communities across B.C. and will undoubtedly be one of the main issues in the fall 2018 local government elections.

Sky-high property prices have made purchasing a home impossible for many B.C. residents, and rents have soared well beyond the range of affordability for a large percentage of tenants. Since 2017, the City of Vancouver has been the least affordable place for housing in North America, and the problem has spilled into neighbouring lower mainland communities, Vancouver Island and parts of the interior.

Short supply of rental housing has led to vacancy rates well under 1 per cent in many B.C. communities, with Victoria at 0.7 per cent, Burnaby at 0.6 per cent, East Vancouver at 0.3 per cent and Kelowna at 0.2 per cent.

This is not a “business as usual” situation, and bold action will be required to address the crisis. Measures have been taken to reduce overseas and investor demand for housing throughout the province, but these actions have not been enough. B.C. communities need access to a robust and stable supply of housing that is truly affordable to make a real impact on this growing crisis. This will help directly, in terms of increasing affordable housing supply for those who live in the new units, as well as indirectly, by putting downward pressure on market rental prices through increased vacancy rates and more housing options for renters.

While many of B.C.’s housing affordability problems are the result of poor policy choices, there are concrete actions local governments can take right now to make things better.

Local government policies we propose in this document include:

- 1. The 30% formula:** Defining “affordable rental housing” in municipal policies as housing that: a) costs 30 per cent or less of an area’s monthly median household income; or b) is at least 30 per cent below market rent in that area (whichever is lower in a given community).
- 2. Rental zoning:** Using new rental zoning powers to increase and protect the supply of affordable rental housing.
- 3. Fast-track affordable construction:** Accelerated permitting and approval processes for construction of affordable rental housing.
- 4. The 50/50 model:** All future private density increases should be matched with an equal increase in public density, split 50 per cent private and 50 per cent affordable public. This can be accomplished using either inclusionary zoning or density trading.
- 5. Development cost waivers:** Targeted incentives for affordable rental construction, including waivers for Development Cost Charges (DCCs) and Community Amenity Contributions (CACs).
- 6. 10-year tax waivers:** 10-year property tax waivers for public and non-market affordable rental housing construction.
- 7. Build on public land:** Building new affordable rental housing on municipal and school district owned lands.
- 8. Land value capture:** In the Metro Vancouver region, using TransLink’s existing powers to tax a portion of the significant land value increases in properties close to mass transit lines and other publicly funded infrastructure. The increased value of this land results directly from public investment, and it is fair that the public recoup some of that value to fund needed services. This revenue can be used to fund expanded transit service, and thus greater access to viable housing options for commuters throughout the region.

In addition, we propose some key measures the federal and provincial governments can take to help municipalities address the housing crisis, including:

- 1. Mandatory inclusionary zoning:** Enable B.C. local governments to mandate inclusionary zoning of affordable housing in all new developments. Cities in the United States have created tens of thousands of affordable housing units this way, and Ontario and Alberta have both recently given this power to local governments in those provinces.
- 2. Increased and accelerated capital funding:** While senior governments are signalling changes in the right direction, they need to scale up and accelerate capital funding for affordable housing construction if they are serious about addressing the crisis.
- 3. Tax waivers and incentives:** Much of the existing affordable rental housing stock was built in the 1960s and 1970s with the help of targeted tax waivers and incentives. The federal and provincial government should use similar measures today to encourage affordable rental construction and the preservation of existing stock.
- 4. Close loopholes for land speculators:** The provincial government needs to close property tax loopholes that encourage land speculators to hold undeveloped residential land without developing it, in anticipation of future land price increases.

What can local governments do with their existing powers?

The 30% formula

Make sure “affordable housing” is truly affordable

A crucial starting point will be ensuring that the definition of “affordable housing” used by local governments matches commonly accepted “real world” definitions of affordability.

Housing experts and advocates typically define affordable housing as housing that costs 30 per cent or less of a household’s monthly pre-tax income. However, some local governments are using definitions based on current, (highly inflated) average market rents in a region. For example, based on market averages, one B.C. city defined “affordable” rental units as \$2,505 per month for a two-bedroom apartment. However, when the definition is based on 30 per cent of median household income in that city, an affordable unit should cost \$1,650 per month or less.

Projects that seek public support—including subsidies, direct public funding, tax exemptions, favourable rezoning or density bonusing—should be required to meet affordability criteria based on 30 per cent of average local income or 30 per cent of current market rental prices—whichever is less. It is crucial that the primary reference point for a particular region be earnings, not market price.

Rental zoning

Use new rental zoning powers to increase and protect the supply of affordable rental housing

Legislation passed in 2018 by the B.C. NDP government allows local governments to zone areas (or even percentages of units in new buildings) specifically for rental housing. This new authority gives local governments significant power to increase the supply of rental housing, and therefore positively impact affordability—but only if local councils and regional districts commit to actually using it.

Local leaders can use these new powers to:

- **Protect existing rental housing land by zoning it as “rental only.”** This could help prevent further “demovictions” by speculators that look to sell off or redevelop existing rental properties as strata condominiums. Rental zoned properties could, under specific circumstances, be redeveloped as expanded and improved rental housing, but only if existing tenants are:



- a) protected through rent control measures;
- b) provided assistance with interim housing during the redevelopment; and
- c) given the “right of first refusal” to return to their old suite (or a new replacement unit, in cases of full redevelopment).

- **Rezone land for rental housing.** Recent provincial zoning amendments allow local governments to rezone land as “rental tenure only” for future developments. Local governments should use this authority widely to encourage rental housing construction. Without this type of regulation, property speculators and developers will continue to focus on maximizing their profits through the construction of strata condominium units that are unaffordable for local residents, and often purchased by the wealthy as financial investments rather than for use as housing.
- **Require a minimum percentage of rental units in new developments.** The province’s new legislation allows local governments to require that a specified number, portion or percentage of units in a new development be zoned for rental use only. Local governments could, for example, require that a minimum of 50 per cent of units in all new developments be zoned for rental, and could also negotiate agreements to keep these units at defined affordable rates.

Full details of the legislative amendments governing rental zoning authority can be found at: <https://www.leg.bc.ca/parliamentary-business/legislation-debates-proceedings/41st-parliament/3rd-session/bills/third-reading/gov23-3>

Fast-track affordable construction

Accelerated permitting for affordable housing

Many property developers blame lengthy municipal permitting processes for housing supply shortages in B.C. communities. However, the type of broad deregulation many developers are asking for

offers no guarantee that affordable housing will be prioritized in new projects rather than additional high-end (and perhaps poorly planned) strata developments aimed at the investor market.

As an alternative, we propose that local governments implement accelerated permitting and zoning processes exclusively for affordable rental housing projects. Projects that increase the supply of affordable housing, such as housing co-ops, non-profit social housing, and publicly owned rental buildings should be given priority over expensive condos, single family detached homes, and other types of housing that do not directly increase affordability.

The process could be further accelerated by hiring additional planning and permitting staff to work on development applications with affordable housing components, and by providing staff with any extra resources necessary to get the work done.

The 50/50 model

Targeted densification, with at least 50 per cent of new density as affordable rental and public housing

In some major urban areas of B.C., opportunities to build affordable housing are unnecessarily constrained by single-family residential zoning, which prevents the construction of more space-efficient and less land-intensive forms of housing. However, in the absence of clear measures to limit speculation, blanket densification could easily result in further inflation of land values and housing prices as speculators bid up properties while amassing land for redevelopment. Moreover, local governments would lose important leverage in negotiations with developers if those developers simply receive the density they want without having to “trade” anything with municipalities in return—specifically, concessions that would promote a meaningful increase in the supply of affordable housing.

Local governments should take strategic action on this issue with careful and targeted policies that open



up the possibility of rezoning for densification across all neighbourhoods, but only when developers commit to building a significant percentage of new density as rental or social housing that meets defined affordability criteria (i.e. 30 per cent or less of an area's median household income, or at least 30 per cent below average market rental rates).

In cities most affected by the current housing affordability crisis, the percentage of affordable units required for approval of densification should be set relatively high, with at least 50 per cent of new units available at prices below the market average. To be effective in addressing the crisis, these types of density trade-offs with developers should require that affordable units are delivered within a set time frame, and not deferred over a longer time horizon. Allowing cash-in-lieu payments as an alternative to building actual housing units should be avoided, as these payments are easily diverted into general government revenue for uses other than affordable housing. They may also be delayed or deferred, even when used for their intended purpose.

The model of strategic upzoning we are proposing would help increase the supply of affordable housing, rather than simply open up new opportunities for property speculation and the construction of additional investment stock. Without strategic regulation and intervention, the real estate market will not on its own deliver the right supply of affordable housing B.C. communities need.

Negotiated inclusionary zoning

Inclusionary zoning is a policy where local governments require that a specified percentage of units in a development be allocated for uses such as affordable housing, social housing, housing for people with disabilities, or any other housing that meets a community's social and economic priorities.

Some local governments in B.C. are already implementing inclusionary zoning policies, but on a negotiated, case-by-case basis with developers. This is because B.C. local governments lack the necessary

authority from the province to make it a mandatory requirement (for more on this issue, see page 7).

Even without the ability to set mandatory requirements, local governments can make inclusionary zoning a priority within their internal permitting process and in their negotiations with developers. In the context of the current housing crisis, local government should try to negotiate 50 per cent or more affordable units (as defined earlier in this document) for all new residential developments. Should B.C. local governments manage to secure authority for mandatory inclusionary zoning from the province, they can continue to negotiate inclusionary housing above mandated minimum levels, if that is desired.

Affordable housing that is created through inclusionary zoning can be managed through direct agreements with building owners, contracts with non-profit housing agencies, or directly by government agencies. In the Metro Vancouver region, the publicly owned Metro Vancouver Housing Corporation (MVHC) is well equipped to manage and maintain rental housing.

Other zoning measures

Other key planning and zoning measures should include:

- Using zoning and density to ensure a diverse mix of housing that meets community needs. For example, requirements that target the creation of affordable units suited to families with children, multigenerational households, different income levels, young people, students, people with disabilities and seniors.
- Allowing targeted larger-scale densification that maximizes public and affordable rental housing around transit lines, schools, parks, employment areas and other suitable locations.
- Ensuring that densification does not displace existing affordable stock, particularly older



purpose-built rental housing, or the “hidden density” in multi-generational family homes and multi-unit rentals located in converted single-family homes.

- Using density trading to allow flexibility when negotiating additional density granting—for example, by swapping private and public density in certain situations.

Development cost waivers

Waive Development Cost Charges (DCCs) and Community Amenity Contributions (CACs) for affordable public and non-profit housing

Local governments should implement policies waiving Development Cost Charges (DCCs), Development Cost Levies (DCLs) and Community Amenity Contributions (CACs) for new rental housing units that meet defined affordability criteria. B.C. local governments have the authority to do this, and some have already been using this strategy on an ad-hoc, case-by-case basis. It will be important to develop clear criteria, policies and transparent processes for waivers, to make the best use of this tool.

Under this type of policy, new public and non-profit developments would have 100 per cent of fees waived, whereas mixed projects that incorporate both affordable and market housing would receive pro-rated exemptions based on the number of units and percentage of space allocated to affordable housing.

Ideally, DCCs and CACs should be gradually eliminated in favour of land value taxation (for more information on this issue, see: <https://www.affordablebc.ca/our-plan>).

10-year tax waivers

Property tax waivers for public and non-market affordable housing

Section 226 of the *B.C. Community Charter* provides authority for local governments to exempt property from municipal property value taxes for up to ten years. These waivers could be used to support affordable public and non-market housing construction, and the renewal and preservation of existing affordable rental housing stock.

To use this authority, a council must establish a revitalization program, enter into agreements with property owners, and then exempt the property from taxation once all specified conditions of the program and the agreement have been met. Exemptions may apply to the value of land, improvements or both. Councils are free to specify, within their revitalization programs, the amounts and extent of tax exemptions available.

Starting in 2019, municipal revitalization property tax exemptions for eligible new purpose-built rental housing will also apply to provincial property taxes, amplifying the impact of exemptions by local governments. This provincial property tax exemption mirrors the terms of the municipal one, including the length of time and the percentage of the property value exempted from tax.

Build on public land

Use municipal and school district owned lands to build new non-market housing

Local governments across B.C. own significant amounts of land and should consider using more of this property for affordable housing development. In some cases, local governments may have enough capital resources to build on this land themselves. In other instances, local governments can provide low- or zero-cost land as a contribution to building housing in partnership with the province, the federal government and/or non-profit housing bodies, such as the B.C. Cooperative Housing Association.



A good first step on this path is for councils to do an inventory of local government-owned lands under their jurisdiction, evaluating them from the perspective of their suitability for affordable residential development. In some cases, poorly suited lands could be traded or sold so that local governments can purchase new lands that are appropriate for affordable housing. Local governments could also investigate purchasing lower value lands to upzone them for high residential density.

Local governments in B.C. also have the power to expropriate land (with fair compensation). Councils should consider this option in cases where properties have either been left derelict, not been maintained to legal standards or are unutilized (especially properties held unproductively by land speculators, left derelict by non-resident investors or left in disrepair by “slumlords”). These properties could be used directly for affordable housing development, or be rezoned and sold off at higher prices to fund affordable housing in other locations.

There has also been public discussion in B.C. about locating non-market housing on school district-owned lands, especially to address affordability problems for teachers in the Metro Vancouver region. Part 7 of the *B.C. School Act* explicitly allows districts to acquire and use land for purposes “including the provision of housing accommodation for students or employees,” although they must get approval from the Minister of Education first. B.C. school boards should investigate options for developing non-market employee housing on district owned lands, including development partnerships with local governments, which are also permitted under the *Act* for “joint board and community use.” The *Act* also allows districts to provide student housing, and boards could explore the possibility of providing family housing for families with children enrolled in district schools. In addition, the *Act* stipulates that housing units not required by employees or students can be rented to the wider public on the same terms and conditions that apply to school district employees.

Land value capture for transit

Use land value taxes to fund and expand public transit in Metro Vancouver

Existing legislation gives TransLink the authority to tax land value increases that result from SkyTrain line construction, rezoning and other publicly funded transit infrastructure improvements; however, TransLink is not using this as a tool. One model of land value capture TransLink could employ is a “benefitting area tax”—an incremental property tax or special tax assessment that captures a portion of the value uplift associated with the proximity to new transportation infrastructure.

A land value capture tax could work something like this: government is making an investment in expanding SkyTrain service into a new area. This investment of public tax dollars will lift the value of properties in the immediate areas near transit stations significantly—say, by up to 50 per cent in this example. The principle of land value capture proposes that a percentage of the significant land value increase that results from this public investment should be recouped by the government and reinvested in public infrastructure to either lessen the tax burden of people in B.C., or expand public services.

This is important because, in this hypothetical example, the resulting increase in value from the transit investment is currently being extracted as unearned income (profit) by developers (in the absence of the tax), as well as by banks and financial lenders who eagerly supply interest-bearing loans. If left untaxed, this dynamic drives significant further increases in price by permitting and encouraging speculative investment activity—that is, profit captured exclusively by private actors, but made possible by public investment.

Revenue from land value capture in the Metro Vancouver region could help fund and expand transit infrastructure, which would reduce travel times, increase mobility and thereby expand the range of



viable housing options for residents. Lack of effective public transportation forces people to rely on private automobiles, which undermines savings residents might otherwise gain from moving to less expensive parts of the region.

In addition, the use of a land value capture tax for transit could establish a precedent for using this efficient form of taxation to eventually fund other public expenditure in the future, including affordable housing. However, using land value capture tax for other purposes is a longer-term policy discussion that will require studies, consultation and legislation involving local governments and the province.

For more information on land value capture, see: <https://www.affordablebc.ca/our-plan>

What do local governments need from the provincial and federal governments?

Mandatory inclusionary zoning

Allow local governments to mandate inclusionary zoning in all new developments

A relatively simple but effective change the province could make is to allow municipalities to set mandatory inclusionary zoning requirements. Inclusionary zoning refers to any programs or policies that require or encourage the creation of affordable housing when new development occurs, including impact or linkage fees that generate revenue for affordable housing.

While B.C. local governments have had some limited success negotiating inclusionary housing agreements on a case-by-case basis with developers using incentives (see discussion on page 4 of this paper), many jurisdictions have found that voluntary incentives are not enough and have moved to mandatory requirements for percentages of affordable and inclusive housing in all new residential developments. This approach is better for ensuring that affordability targets are met and

allows for faster and more efficient application of the policy than happens when every agreement must be negotiated with developers on a case-by-case basis.

A 2017 study found that inclusionary housing programs in the United States have so far directly created more than 170,000 units of affordable housing, plus an additional \$1.7 billion worth of “in lieu” fees for financing the future construction of more affordable housing. The majority of U.S. programs are based on mandatory contributions of affordable housing or fees in lieu. New York City, for example, requires that a minimum of 10 per cent of housing be affordable at an average of 40 per cent of an area’s median income, as well as formulas to ensure affordable units are built for middle-income earners. Affordability requirements on units mandated through the New York City policy are permanent—rents cannot be raised above affordable levels (indexed to income and inflation) in the future.¹

Mandatory inclusive zoning legislation has already been passed in Ontario and Alberta, and the provincial government in B.C. should do the same.

Increased and accelerated capital funding

Increased capital funding for public and non-market affordable housing

While B.C. local governments are often well-positioned to contribute land, as well as offer incentives such as accelerated permitting and rezoning for new public and non-market housing, they typically have limited sources of revenue to fund the capital costs of housing construction. Senior governments have historically been responsible for housing investment in Canada (prior to the federal government pulling out of housing in the 1980s),

¹ See Emily Thaden and Ruoniu Wang, *Inclusionary Housing in the United States: Prevalence, Impact, and Practices*, Lincoln Institute, September 2017: <https://www.lincolninst.edu/publications/working-papers/inclusionary-housing-united-states>



and have much larger and more diverse streams of revenue to draw upon.

The B.C. provincial government is pledging new funding for housing, but investments in public and non-market affordable housing needs to be significantly scaled-up and accelerated to have a significant impact on affordability in B.C.'s worst-hit areas.

The federal government launched a National Housing Co-Investment Fund in May 2018 as part of its National Housing Strategy. The Co-Investment Fund pledges \$5.19 billion in low interest loans and \$2.26 billion in capital contributions for new housing across Canada. B.C. local governments should try to access this funding, but should also work with the Union of B.C. Municipalities, the Federation of Canadian Municipalities and the province to push the federal government to further enhance and accelerate capital contributions for public and non-market affordable housing. Key proposals to the federal government should include direct funding, land transfers and low- or zero-interest loans.

Tax waivers and incentives

Federal and provincial tax incentives for rental housing construction

Much of B.C.'s existing market rental housing stock was built with the help of federal and provincial tax incentives made available in the 1960s through to the early 1980s. Local governments can lobby senior levels of government to bring back similar incentives to address today's rental shortages.

Key demands could include:

- Asking the province to temporarily waive the school tax for new affordable public and non-market affordable rental housing and for approved renovations that help preserve and extend the lifespan of existing affordable rental stock.

- Lobbying the federal government for tax and financing incentives for rental housing construction, including GST exemptions on construction materials and services, and "rollover" provisions that provide owners of rental buildings a capital gains tax exemption if they re-invest their profits in rental housing within the calendar year.

Close loopholes for land speculators

Close loopholes that encourage property speculation

All too often, speculators purchase land in prime locations and withhold it indefinitely from development or other productive use. Instead, they hope to profit from future zoning decisions or public infrastructure investments that precipitate significant land value increases. Frequently, financial windfalls of this type result from the proximity of land to new transit infrastructure.

Local governments should ask the province to adjust existing provincial property class taxes and exemptions to penalize and discourage this type of speculative holding of undeveloped or underutilised land. These changes should be used to better align class determined rates with the future usage (and true value) of highly sought-after land parcels.

For example, land that faces current, future or proposed development should remain subject to the full "Class 6, Business Other" tax rate until a specified level of completion is reached and the final transition is made to "Class 1, Residential." Projects that will create primarily rental and/or social housing should be exempted. Highly sheltered rates accessed under "Class 9, Farm" (for example, temporary "community gardens" and green space often exploited by corporate owners and developers) should also be banned in downtown cores and other areas where housing development needs to be sped up.



Conclusion

B.C.'s housing crisis will not be solved overnight, but there are effective actions local governments can take now to improve housing supply and affordability in their communities. Some of these policies may seem bold and unprecedented, but the unprecedented severity of the affordability crisis facing B.C. communities requires such innovation in policy and regulation. Local governments could be further empowered in these efforts by making some straightforward legislative changes at the provincial and federal levels of government.

The stakes are too high for inaction or weak measures. The housing crisis is already driving unacceptable levels of poverty and homelessness in this province, and contributing to a growing sense of desperation for hundreds of thousands of young people, families, seniors and others across B.C. If we want healthy, diverse, equitable and livable communities for all British Columbians, we need to take meaningful political action now. The alternative is the continued degradation and hollowing out of our communities, allowing them to be selectively repurposed as privileged investment opportunities for a wealthy few.

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