Vancouver BC: *20% Core Need Housing Policy*

Background

The city introduced this inclusionary housing program in 1988 through a policy initially called its *20% Core Need Housing Policy*, but now more commonly its *Non-Market Housing Policy*.

The program was designed to take advantage of two major changes in the development of the city:

- the large and redundant industrial lands that were becoming available as the economic base of the city shifted from resources to services; and
- the substantial growth and associated rising house prices that created a strong demand for building housing at higher-densities.

It was also designed at its outset to work with the then current federal funding, which targeted social housing for ‘core need households’. (These were defined as households who otherwise would have to pay more than 30% of their gross income for suitable housing.)

The policy has had to adapt to changes in the availability and priorities of the housing funding from senior governments. The federal funding was cancelled in 1993. The provincial funding under the *Homes BC Affordable Housing Program* was continued from 1994 until 2002, but not at a level that matched the lost federal dollars.

As a consequence, the city opened the sites to ‘non-market housing’ in 1993, in order to provide greater flexibility in response to the federal funding cutbacks. This change was intended to allow, not only social housing, but also other forms of needed housing not provided by the market, like ‘low-end-of-market’ rental housing. The other options were to be considered where an affordable housing site would be left undeveloped for a long time, or the market housing could not proceed without the affordable housing component.

The policy has been affected by two other notable shifts in the provincial funding. Around 2002, the province started effectively requiring that development sites be provided at no cost. (The policy as implemented provides sites at a reduced cost.) In 2007, it also started focusing its limited funding on supportive housing for vulnerable populations. (The city’s continuing preference has been to use the policy to serve primarily conventional, and particularly family-oriented, social housing.)

Provisions

The policy was designed principally to provide sites for the development of social housing using senior government funding.

It has been applied to privately-owned developments on large sites applying for a change of use to residential. Typically, it affects only developments of more than 200 units because they are capable of accommodating a separate site for a social housing project of a reasonable size (that is, at least 40 units in size).

As a condition of development approval, these developments have been required to provide a site or sites capable of accommodating a minimum of 20% of the units as social housing, specifically for core-need households. Half of those units also must be for families or, in the words, have 2 or more bedrooms.

The 20% set-aside reflected a city objective of providing a mix of incomes in new neighbourhoods that was consistent with the city as a whole. At the time, 20% of the households in Vancouver were in core-need. The 20% objective is also applied widely elsewhere; it is incorporated in many other city documents, including strategic planning statements and official plans for existing neighbourhoods.

<u>Process</u>

The city has secured these sites using a standard set of practices.

A suitable site has been identified and agreed through the re-zoning negotiations between the city and developers.

The city has obtained an option to purchase the site for 80 years at an agreed price, based upon $ per buildable ft^2, and then adjusted according to the rise in the CPI for Vancouver.

The developer has then worked in partnership with an approved non-profit sponsor in preparing a development proposal for the site, and making a submission to the provincial government for funding for the affordable housing component. The developer and sponsor were expected to continue submitting for funding until successful.

The city has exercised its option to purchase the site only when the project was able to secure senior government funding. The province has typically funded 75% of the purchase price, and the city the remaining 25%. (Formerly, the federal government provided 2/3s of the provincial share.)

After the purchase, the city has leased the site to the non-profit sponsor for at least a 60-year term. The developer has then proceeded to build the project and transferred the building to the sponsor when completed. The sponsor is responsible for the on-going management of the project.

The purchase price for the land has been based upon the difference between the maximum cost ceiling permitted under the current subsidy program and the total development costs for the project. That cost difference has varied from site to site, but generally resulted in a land price about 60% of the private market value.

Payments-in-lieu

The option to receive payments-in-lieu of the affordable housing was introduced in 1993. This allows the city to cash-in the city-held value of undeveloped optioned sites, and then use the monies to support the provision of affordable housing in other ways.

Under this option, in return for the cash payment, the city has released the developer from building the affordable units and allowed them to build the equivalent number as market-rate units. The payment has been based upon the difference between the market value of the site without the obligation, and price the city would have paid under its option-to-purchase agreement.

Administration

The city staff has been actively engaged both as administrators and deal-makers in the putting together the affordable housing package on each of these sites.

The policy requires that the staff to be involved in these and other aspects of the process:

- identifying the appropriate site(s) in the process of negotiating the approved development plan;
- selecting and assisting the non-profit sponsor or other development partner;
- acquiring and then re-conveying the site;
- co-ordinating the developer and sponsor;
- assisting in their funding applications;
- thrashing out the financial details; and
- shepherding the projects through the public approval process.

More recently, those responsibilities have been extended to include the following:

- providing city funds for some developments;
- buying out the affordable housing obligation; and
- finding alternative ways of making use of the sites.

Authority

The city in 1993, under s565.1 of the Vancouver Charter, was given the authority to offer higher density in exchange for affordable housing, special needs housing, and/or amenities. Corresponding powers were given to the other local governments through identical changes to its Municipal Act (now, the Local Government Act).

According the guidelines that accompanied the legislation, the legislation enabled the use specifically of ‘comprehensive density zoning’. Under this provision, the city was able to customize its zoning regulations for large, complex and/or multi-use sites undergoing redevelopment. Those regulations were to be implemented through a negotiated re-zoning process, in which the site-specific increased densities and other regulatory benefits were determined along with the affordable housing and/or other amenities. Before this authority could be used, the city had first to establish the governing conditions – such as, the limits to densities that it would permit and the affordable housing that it would demand – in its relevant statutory documents.

This description corresponds closely with the established city practices. So, this legislation only seems to have provided expressed authority for what the city had been doing already.

Production

As of early 2008, through this policy, the city was holding or had developed sites capable of accommodating a total of 2533 affordable units in nine new neighbourhoods. Of these units, 1427 had been constructed and another 220 had recently received funding, representing 65% of the total.

Most of the developed sites were developed under BC Homes funding available between 1994 and 2002. (That funding had supported the development of a total of 3800 units across Vancouver.) Only one site has been developed since the cancellation of this program; that was done with the city providing 90% of the required subsidy.

Nearly all of the undeveloped capacity (846 units out of 886) was in the Concord Pacific Place area of the North False Creek neighbourhood. The development plan for this neighbourhood was approved with a 20% obligation in 1990. It was by far the largest of the new neighbourhoods subject to the affordable housing obligation, which was spread across 12 different sites.

The development of affordable housing sites in this neighbourhood has been stymied by the lack of funding. The last project there was completed in 2000 using provincial funding approved in 1998. Furthermore, due to the release of affordable housing sites in the neighbourhood in return for payment of fees, its affordable housing capacity has been substantially eroded (see below).

The number of new development sites being added for affordable housing also has significantly fallen off. No new sites were secured between 1990 (when North False

Creek was approved) and early 2008 (the date of the above data). Since then, one new site, located in the Olympic Village with a capacity of 220 units, has received funding and is under construction.

Use of payments-in-lieu

The city has used this option with some reluctance, but has had to recognize the current funding reality. It has had to sell the affordable housing obligation on some optioned sites in order to replace the funding that previously would have come from senior governments. Furthermore, it has also had to use the money to buy outright other optioned sites. This has become necessary because securing provincial funding in recent years has required that the development sites be offered at no cost.

Payments-in-lieu have been approved for at least six sites. In most cases, the money was used to buy outright one or more optioned sites within the same neighbourhood. In one case, it was used to buy a site immediately outside the area, and in another, to subsidize construction on another optioned site.

In the most recent example, in early 2008 the city received $5.1 million in return for allowing 226 affordable units to be built for market-rate units on a site in Concord Pacific Place.

In False Creek North, where payments-in-lieu have been used most often, 680 affordable units have been lost out of the 1964 affordable units initially approved for development there. This means that the initial 20% obligation has been reduced to 13%. There is a potential for further losses, because the development of three optioned sites (with a capacity of 328 units) still remains uncertain.

Types of housing

The affordable housing produced under this policy has been predominantly social housing. Roughly half of that housing has been in units with 2 or more units.

In some places, the policy has been used to produce other types of low-income housing. In the downtown eastside, new SRO units have been provided to replace the declining stock of corresponding units in old hotels. Elsewhere, housing has been provided for the elderly, disabled or other vulnerable groups.

Since the funding cutbacks, some of the sites have been used for other types of affordable housing. For example, two sites were recently leased to non-profit developers providing below-market rental housing on one, and a mix of life-lease and ‘core need’ units on the other.

Observations

The policy was designed to secure development sites for social housing to be built under funding from senior governments. It continued to be a productive program for a lengthy period when that funding was available.

Since the funding cutbacks, production has dramatically dropped off. It is telling that the city had been able to complete only one social housing project between the cancellation of the BC Homes in 2002 and early 2008 (when published information was last available), and that project was almost entirely funded by the city.

The city has had to rely in recent years on payments-in-lieu to raise funds for the development of the affordable housing, and particularly to buy some of the optioned sites outright. The consequence has been an erosion of the sites available for affordable housing.

The city has been inventive in finding alternative ways for making use of some of these sites, but that these alternatives have served to dilute the original intent of the policy.   For example, the affordable housing obligation on some sites has been released for low-end-of-market rental housing or other housing serving a less demanding income level. Despite this relaxation in the housing requirements, the policy has never been used to support affordable ownership housing

The city was not very aggressive in applying the policy in the first place. It only demanded that development sites be provided at a reduced price – on average at about 40% below their market value. This demand falls short, for example, of requiring the delivery of the sites at no cost, or to the actual construction of below-market units.

The city also seems to have lost out when selling the affordable housing obligation. According to the option-to-purchase agreements, the value of this obligation was set at a price that was adjusted over time by the CPI. The city would have received considerably more if it had been able to sell at a price reflecting the current market values in the city.

The policy in its current form may have run its course. Almost no new sites have been generated over the last 20 years. The fundamental modus operandi of the policy, particularly in the current funding environment, appears to be in need of a major overhaul.

<u>Comparison with inclusionary zoning</u>

Vancouver's inclusionary program established by this policy has a broadly similar purpose to inclusionary zoning programs in the US. Both use the development approval process to leverage the provision of affordable housing in what otherwise would be exclusively market-rate developments.

Beyond this, there are some significant differences between the two:

1) The policy leverages private developers to provide development sites at a reduced cost for social housing.

   Inclusionary zoning leverages private developers to build and provide the affordable housing at a reduced price.

2) The policy is reliant upon funding from senior governments for the construction of the affordable housing.

   Inclusionary zoning relies upon the price reduction that can be achieved through the regulatory benefits provided by the development approval process.

3) The policy applies to certain designated sites – namely, large sites accommodating 200 or more units and requiring a re-zoning approval for a change of use to residential.

   Inclusionary zoning typically is almost universally applied, including on developments proceeding as-of-right. While some programs do exclude small developments, the cut-off is commonly at 10 to 50 units.

4) The policy produces affordable housing on sites separate from the market units, and often at a later time whenever government funding is not available.

   Inclusionary zoning produces affordable housing that is generally mixed within the market units and built concurrently with those units.

It is fair to note that Vancouver's policy has supported the development of social housing, which serves lower incomes than those accommodated typically by most inclusionary zoning programs. This difference, however, reflects a policy choice more than any inherent incapability in inclusionary zoning. There are programs in the US that have successfully provided for sites for social housing along with the construction of affordable ownership and market ownership within the same mixed-income developments.

RD/29Jan10