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June 25, 2019

Mayor Mike Hurley and Council
City of Burnaby
4949 Canada Way
Burnaby BC, V5G 1M2

Dear Mayor and Council:

Re: Rental Use Zoning Policy and Initial Implementation Framework

The Urban Development Institute (UDI) appreciates and supports Council's efforts to protect displaced tenants and increase the number of rental and affordable housing units throughout the City of Burnaby. We are pleased that the City has now moved forward with a rental housing policy, so some applications can proceed. While we endorse many elements in the policy, our members are encountering several issues that we respectfully ask Council to address.

UDI endorses the attempt to offset the costs of the new rental and affordable housing requirements in Streams 1 (Rental Replacement) and 2 (Inclusionary Zoning) through density bonuses. This is critical as the City is changing its requirements after many of our members have purchased sites and made financial commitments. Without an offsetting mechanism, the costs of projects will increase or they may become unviable – both of which undermine affordability. At the same time, future investments in projects will be undermined because builders and financial institutions, who need stable and predictable regulatory regimes, will view the new requirements as a downzoning. This is particularly important for rental projects given the time horizons for investments are several decades.

We are also particularly supportive of the opportunity to build voluntary rental housing in underutilized Commercial Districts (Stream 3). We urge other local governments will adopt this approach. Not only will this lead to more rental housing being built, it may also encourage the construction of commercial spaces. This approach will also create vibrant, mixed-use neighbourhoods in Burnaby.

Despite the offsetting density increases, several projects may not be able to proceed if changes to the policy are not made. We surveyed our Burnaby members, and they have several comments and suggestions.

Referred to:
Planning and Development Committee (2019.09.17)
Copied to:
City Manager, Dir. Corporate Services, Dir. Planning and Building

Vacancy Control

Vacancy control for the RMr "market" rental units is the most critical issue. For the "market" rental units, the initial rents are at market rates, with vacancy control applied when occupancy changes. These units should not be considered market rental units because of the restrictions on rent increases when tenants leave. In fact, over time they may be closer to be defined as below-market rental units. This is made worse for the the affordable rental units in Stream 1 and 2 as the rents start below market when the units are first occupied.

UDI is significantly concerned that affordable rental units and "market" rental units would be subject to vacancy control as it will significantly compromise builder's ability to invest in future rental housing projects. We note that vacancy control was opposed by the Province's Rental Housing Task Force recommendations due to the risk of undermining new investment in rental housing. It states to, "Maintain rent tied to the renter, NOT THE UNIT." Capping market rental units on change in tenancy is in conflict with this recommendation and will ultimately be detrimental to the value of the new units which are required to be included in Stream 2. Further, UDI conducted a survey of 30 rental builders and found that 12,631 rental homes which are currently planned for communities across B.C. will be at significant risk if restrictive vacancy control policies are imposed. This number represents nearly two thirds of the 19,972 rental homes that respondents reported are currently in development.

The policy understandably includes maintenance requirements for the RMr units. However, this coupled with the vacancy control and recent changes to the *Residential Tenancy Act* (*RTA*) that limit annual rent increases to the Consumer Price Index (CPI) will make many projects unviable. Operating costs, without maintenance, are already outstripping inflation, making it difficult to fund significant upgrades as buildings age. This will discourage institutional partners and long-term holders of rental housing assets from purchasing these units. This also significantly degrades their value. This is problematic for many projects and could be considered a downzoning– despite the proposed density offsets.

UDI recommends an alternative approach to vacancy control which would allow owners of affordable rental units in Stream 1 and 2 (i.e. 20% below CMHC Market Average) at occupancy turnover to set the rent at 20% below the CMHC Market Average in the local zone. This approach is being used within the current policy to establish the initial rents (with the exception in cases when displaced tenants accept occupancy in new buildings in Stream 1).

For Stream 2 "market" rental units, UDI notes that flexibility in rent rates needs to be addressed in order to ensure that owners have enough resources to adequately fund maintenance of buildings. Two potential solutions that could be discussed is:

- At turnover, if the CMHC Market Average is higher than market rate set at initial occupancy plus CPI increases, owners of the units would be able to use the CMHC rates. Likely this will occur at a time when significant building/unit upgrades may be needed. This would allow the rents to keep up with the average CMHC rate over time. It would allow owners to offset their rising operating and maintenance costs while ensuring that the RMr units remain affordable and below market.

- At turn over, rents could be pegged between the current rental rate of the unit and the true market rent.

UDI would be willing to work with City staff to explore these and potentially other solutions.

UDI would like to note that if a builder voluntarily goes beyond the minimum requirements for Streams 1 and 2, the units should be set at market rental rates that adhere to all regulations under the RTA, including when occupancy changes, they could be rented at market rates.

Density Offset Challenges

Additional density for below market rental, market rental and the density offset is the key method used to make this policy work. However, in many cases, fitting the density on a site in an efficient form is a significant challenge. Specifically, with additional units and height potentially comes increased mechanical requirements and new elevators. Supplemental parking may be needed, which would escalate the costs of some projects – especially if more than one level of parking is required. This issue is exacerbated because of the City's changing groundwater requirements.

Proponents with wood-frame projects may not be able to achieve the added density, unless they move from wood to much more expensive concrete construction. This is critical given that the proposed rent rates will not be adjusted whether a building is wood-frame or concrete.

The downturn in the current housing market is also an issue for some builders. The base density plus the existing bonus system for some may already be sufficient at 5.0 FSR because there is less confidence in high-rise strata density. Adding more density to their projects could make them too large, with longer timelines, costs, inefficiencies, and market risk. Financial institutions may also require higher presale targets, which may not be met within the maximum 12-month marketing period that is limited by provincial regulations.

UDI has several recommendations to address these challenges:

- For projects where densities can be increased, the City could mitigate additional construction costs by allowing FAR exemptions for areas to support the added rental and strata density (i.e. a thicker core, larger mechanical systems, larger common areas, exclusions for added elevator shafts, additional amenities etc.). If the City acknowledges that a density offset is needed, then servicing offsets should be recognized as well.
- The City should consider additional parking reductions for residents and visitors – especially when it can eliminate a parking level.
- Where a concrete form is the only possible solution for rental replacement, additional funding from the density bonus fund could be made available regardless of the ownership of the units.
- A reduced density bonus payment should be an alternative to free additional density (in any case), for all the reasons mentioned.
- At least, any additional costs associated with the added density should be considered when the City calculates the density bonuses that builders have to pay.

- Alternatively, for the below and non-market rental housing units, the City could look at waiving the fees for for-profit builders as is currently practice for non-profit builders.
- For sites in which market conditions are an issue, allow builders to choose the amount of additional strata/ RMr density their projects can accept. The amount of RMr units a builder provides would then be linked to how much increased strata density is incorporated in their projects.
- Allow builders to transfer rental and/or strata densities to other projects. Some builders may be able to accommodate more density on another one of their sites in Burnaby. If a proponent has no other sites, they could work with other builders, or the City could consider allowing them to work with a non-profit to increase the number of units in a below market, non-market or mixed income project.

Displaced Tenants

The current proposal allows tenants displaced by a redevelopment first right of refusal to return after the new building is complete and is ready for occupancy and at the same rent they paid originally. However, this still requires them to move twice.

UDI recommends that the City explore establishing an inventory of affordable housing units being built within each Town Centres. Lower income tenants being displaced by new projects could then be given the first right of refusal to move into new affordable housing units that match their rent rate, which will be built in their Town Centre. They would then only have to move once. At the same time, the City would not lose affordable rental units because of the requirement in Stream 1 to make either 20% of the base density of a project's affordable rental units or replace each lost rental unit during redevelopment – whichever is the highest.

Pro-forma Analysis

We understand that the City conducted an extensive pro-forma analysis of various project types to test the viability of the policy. However, many of our members are still finding it difficult to move forward with their projects. UDI requests that Burnaby provide this information to our members, so we can assess the assumptions that were made by the City during their review of the policy. This would certainly assist our members in their negotiations with staff, and assist UDI with its discussions with the City.

UDI and its members would welcome the opportunity to discuss this policy, our concerns and solutions with the City. We look forward to working with Burnaby on the ongoing implementation of this important policy.

Yours sincerely,

Anne McMullin
President & CEO