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To: "Direct to Mayor and Council - DL"
CC: "City Manager's Correspondence Group - DL"
Date: 7/23/2019 9:55:55 AM
Subject: Questions from Council regarding the Large Sites MIRHP

Greetings Mayor and Council
Staff have received several questions from members of Council regarding Policy Report 11, *Issues Report: Direction for Intensification of Large Sites to include Moderate Income Rental Housing.* This email is intended to provide answers to those questions in advance of today's Council meeting.

Since all of the questions relate to the general nature of moderate income rental housing, I will first provide a description of this new housing type, how it is intended to work, and how the private sector is able to participate in providing this level of affordability in privately-owned purpose built rental housing. The moderate income rental housing concept requires that developers secure a portion of the units (generally at least 20%) at rental rates that are specified by the City, and that are affordable to households with incomes between $30,000 and $80,000 per year at approximately 30% of gross household income. In return for this secured affordability, the City offers significantly greater incentives, primarily additional density.

It is important to understand that a moderate income rental housing project only works when a portion of the units are secured at rents that target households in the $30,000 to $80,000 income range. It is not possible for the private sector to deliver projects where 100% of units are targeted to moderate income households. There are two key reasons for this.

- First, the significant reduction in rental revenue from the moderate income units (30-40% discount to market rents) has a significant impact on project viability. Project revenues must to able to cover project costs in order for projects to proceed, and that is not possible if 100% of the units are geared towards moderate incomes.
- Second, the moderate income rental units are vacancy controlled, meaning that rent increases between vacancies cannot increase beyond the RTA annual allowable increases (i.e. inflation). Many of the costs associated with operating rental buildings increase at rates that are higher than inflation, including utilities, property taxes and a range of other factors. Rents in the market rate units in a moderate income rental housing project have the ability to increase at rates that enable building owners and managers to cover rising costs. Even if a project is viable on Day 1 of operations, it will not be able to secure financing it is projected to have costs rise above revenue in the longer term.

Here are answers to your questions:

1. Will the moderate income rental units be vacancy controlled?

   Yes, rent increases in the moderate income units will be capped at the annual allowable increases permitted under the RTA, regardless of turnover in tenancies.

2. Can the definition of "moderate income" be included in the recommendations: as household incomes of $30,000 to $80,000?

   The definition of “moderate income” is outlined in the report and the recommendations currently reference the body of the report for the criteria staff would use to assess proposals. It is staff’s view that any change in the working definition of “moderate income”, such as a change to the income range or the rental rates, would require the subsequent approval of Council. For these reasons, amendments to the recommendations are not necessary to ensure the intent is clear.

3. Can the definition of "affordable" be included in the recommendations: as 30% of gross household income?

   The rental rates that will be secured in “moderate income” rental projects were derived using this definition of affordability, based on the $30,000 to $80,000 per year income range. For example, a 1 bedroom unit renting for $1,200 per month is affordable to a household earning $48,000 per year at 30% of gross households income. We have used a “rent on the door” model for this program, specifying the rents that will be charged and setting maximum incomes, rather than an income testing model because income testing is extremely intensive administratively.

4. Would an amendment as follows be do-able? (which also means amending Recommendations A, B and C to replace ""generally using the criteria outlined in this report" with "generally using the criteria outlined in Recommendation E": Add E. Moderate income rental housing is defined as housing for renter households with annual gross incomes of $30,000 to $80,000.

   As indicated in #2 above, Staff feel that the requirement for moderate income rental rates and income targets is already clear in the report. Additionally, the criteria included in the body of the report also speak to built form and other aspects of the projects that would not be captured through the proposed amendment.

5. Why (p. 9) is the proposal on the Oakridge Transit Centre site for only 25% of additional rental units at moderate income rental housing rates when the overall proposal is to add just 10% of additional residential floor area - i.e., why can't ALL of the additional 10% of FSR be for moderate income rental housing?

   As described above, it is not possible for rental projects to be 100% targeted to moderate income households, as they would not be financially feasible, nor financially sustainable as rising costs would outstrip revenue over time. This would make projects impossible to finance and therefore build. The market rental units included in these projects are necessary for project viability and sustainability. Staff will review the financial pro forma of projects through the rezoning process to ensure the number/proportion of units secured at moderate income rents is maximized.

Please let me know if you have further questions.

Best

Sadhu

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