CITY OF
VANCOUVER

CITY CLERK'S DEPARTMENT
Access to Information & Privacy

File No.: 04-1000-20-2019-517

August 29, 2019

s.22(1) [redacted]

Dear s.22(1) [redacted]

Re: **Request for Access to Records under the Freedom of Information and Protection of Privacy Act (the "Act")**

I am responding to your request of August 13, 2019 for:

> **Full report prepared by Coriolis Consulting Corporation for "Phase 1 of Financial Analysis for Market Rental Policies" as cited on July 9, 2019 Memorandum sent to Edna Cho.**

All responsive records are attached. Some information in the records has been severed, (blacked out), under s.17(1) of the Act. You can read or download this section here: http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/96165_00

Please note, Housing Policy staff confirms there is no full report and only the attached table was submitted by Coriolis.

Under section 52 of the Act, and within 30 business days of receipt of this letter, you may ask the Information & Privacy Commissioner to review any matter related to the City's response to your FOI request by writing to: Office of the Information & Privacy Commissioner, info@oipc.bc.ca or by phoning 250-387-5629.

If you request a review, please provide the Commissioner's office with: 1) the request number (#04-1000-20-2019-517); 2) a copy of this letter; 3) a copy of your original request; and 4) detailed reasons why you are seeking the review.

Yours truly,

Barbara J. Van Fraassen, BA
Director, Access to Information & Privacy

Barbara.vanfraassen@vancouver.ca
453 W. 12th Avenue Vancouver BC V5Y 1V4

*If you have any questions, please email us at foi@vancouver.ca and we will respond to you as soon as possible. Or you can call the FOI Case Manager at 604.871.6584.

Encl.

:ma

Financial Analysis for City of Vancouver Rental Incentives

DRAFT – 18 June 2019

Rental Scenarios Analyzed

	Scenario*	Attached Exhibits
1	Market rental under existing zoning with no incentives	1 and 2
2	Market rental with increased FSR (no DCL waivers)	1 and 2
3	Market rental with increased FSR and city-wide DCL waiver (not utilities DCL)	1 and 2
4	Market rental with increased FSR and utilities DCL waiver (not city-wide DCL)	1 and 2
5	Market rental with increased FSR and waiver of both DCLs	1 and 2
6	Market rental with increased FSR and waiver of both DCLs with rent control at unit turnover	1 and 2
7	Market rental with increased FSR and waiver of both DCLs with $1 million of off-site utilities upgrades	1 and 2
8	Market rental with increased FSR and waiver of both DCLs with right of first refusal (at MIHRPP rents) to existing tenants	3
9	Rental-only Zoning of C2 Sites at 3.5 FSR with DCL waivers	4

* Assumed rental densities vary by site – based on FSRs provided by City staff – shown in exhibits

Other Scenarios Underway

1. Zero Emission Buildings
2. Mass Timber Construction
3. Property Tax Exemptions
4. MIHRPP

Existing Zoning Districts Analyzed

Zoning District	East Side	West Side
C1	yes	no
C2	yes	yes
C3A	yes	yes
RS	yes	yes
RT	yes	yes
RM4*	yes	yes
RM3	no	yes

* Tested under different assumptions about existing built FSR

Approach to Analysis

1. Tested profit margin (%) for each rental scenario – target is 15% margin in order to match strata development
2. Estimated land value supported by each rental scenario and compared with value under existing use/zoning – rental land value should meet or exceed existing property value

Exhibit 1 - Estimated Profit from Secured Market Rental Development by Scenario
DRAFT for discussion purposes only

13-Jun-19

Approach:
Estimated profit margin (on costs) if developer:

a acquires site at current market value
b obtains rezoning approval
c builds rental project and leases building up at market rents (or DCL waiver rents where applicable)
d sells project to an investor

Compare estimated profit with target required profit margin of 15% of total costs
If less than 15% profit, developer is better off financially with strata development under existing zoning (where that is permitted)

Estimated % Profit Margin by Scenario and Case Study

		Site 1	Site 2	Site 4	Site 5	Site 6	Site 7	Site 8	Site 9	Site 10	Site 11	Site 11b	Site 12	Site 12b	Site 13
	Scenario	C1 East Side	C2 East Side	C2 West Side	C3A E s.17(1) [redacted]	C3A W s.17(1) [redacted]	RS West Side	RS East Side	RT5 East Side	RT8 West Side	RM4 East Side built to	RM4 East Side if built to	RM4 West Side built to	RM4 West Side if built	RM3 West Side built to
	Address	s.17(1) [redacted]													
	Existing Zoning FSR	1.2	2.5	2.5	3.0	3.0	0.6	0.6	0.75	0.75	1.45	1.45	1.45	1.45	1.8
	Assumed Rezoning FSR	2.5	3.5	3.5	7.0	7.0	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.5
1	Rental with No Incentives	none	none	none	none	none	n/a	n/a	n/a	n/a	none	none	none	none	none
2	Rental with Increased Permitted Density	6%	4%	5%	none	3%	19%	7%	11%	14%	none	3%	none	5%	none
3	Rental with Increased Permitted Density and City-wide DCL Waiver	10%	7%	8%	none	5%	23%	11%	15%	17%	none	6%	none	8%	none
4	Rental with Increased Permitted Density and Utilities DCL Waiver	7%	5%	7%	none	4%	21%	8%	12%	16%	none	4%	none	6%	none
5**	Rental with Increased Permitted Density and Waiver of Both DCLs	11%	8%	10%	none	7%	25%	12%	16%	19%	none	7%	none	9%	none
6***	Rent Control at Turn Over	none	none	none	none	none	3%	none	none	none	none	none	none	none	none
7****	Rental with Off-site Infrastructure Upgrades/Costs	not tested	5%	7%	none	6%	19%	6%	not tested	not tested	not tested	not tested	not tested	not tested	not tested

Notes:

* assumes rental replacement where applicable (i.e. RM and RT scenarios with existing rental units)
** Current incentives available to R100 projects
*** Assumes that unit rents cannot be increased by more than annual RTA allowance at turnover
**** Assumes $1.0 million in off-site utlities and infrastructure costs are required as part of rezoning approval

Exhibit 2 - Estimated Land Value Supported by Secured Market Rental Development by Scenario
DRAFT for discussion purposes only 13-Jun-19

Approach:
Estimated supportable land value assuming developer:

a obtains rezoning approval
b builds rental project and leases building up at market rents (or DCL waiver rents where applicable)
c sells project to an investor
d targets a 15% return on total project costs

Compare estimated supportable land value from rental with value under existing use/zoning

Estimated Land Value by Scenario and Case Study

		Site 1	Site 2	Site 4	Site 5	Site 6	Site 7	Site 8	Site 9	Site 10	Site 11	Site 11b	Site 12	Site 12b	Site 13
	Scenario	C1 East Side	C2 East Side	C2 West Side	C3A E s.17(1)	C3A W s.17(1)	RS West Side	RS East Side	RT5 East Side	RT8 West Side	RM4 East Side built to 1.34 FSR	RM4 East Side if built to 1.0 FSR	RM4 West Side built to 1.27 FSR	RM4 West Side if built to 1.0 FSR	RM3 West Side built to 1.19 FSR
	Address	s.17(1)													
	Existing Zoning FSR	1.2	2.5	2.5	3.0	3.0	0.6	0.6	0.75	0.75	1.45	1.45	1.45	1.45	1.8
	Rezoning FSR	2.5	3.5	3.5	7.0	7.0	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5	2.5
A	Income Value	**$10.3 million**	**$9.6 million**	$10.6 million	n/a	n/a	n/a	n/a	n/a	n/a	**$7.3 million**	**$5.3 million**	**$9.3 million**	**$6.8 million**	**$10.4 million**
B*	Strata Under Existing Zoning	$9.8 million	$9.5 million	**$13.4 million**	**$14.6 million**	**$19.6 million**	n/a	n/a	n/a	n/a	$2.6 million	$3.4 million	$3.9 million	$5.1 million	$2.7 million
1	Value Under Existing Use and Zoning	$10.3 million	$9.6 million	$13.4 million	$14.6 million	$19.6 million	$6.1 million	$4.5 million	$6.2 million	$9.2 million	$7.3 million	$5.3 million	$9.3 million	$6.8 million	$10.4 million
2	Rental with No Incentives	$6.2 million	$4.7 million	$7.6 million	$1.7 million	$5.4 million	n/a	n/a	n/a	n/a	$2.2 million	$2.1 million	$2.9 million	$2.9 million	$4.2 million
3	Rental with Increased Permitted Density	$7.2 million	$6.3 million	$10.4 million	$2.1 million	$10.0 million	$6.9 milion	$3.3 million	$5.5 million	$8.9 million	$3.4 million	$3.4 million	$4.6 million	$4.6million	$5.6 million
4	Rental with Increased Permitted Density and City-wide DCL Waiver	$8.5 million	$7.3 million	$11.2 million	$3.7 million	$12.2 million	$7.7 million	$3.9 million	$6.2 million	$9.8 million	$3.9 million	$3.9 million	$5.1 million	$5.2 million	$6.2 million
5	Rental with Increased Permitted Density and Utilities DCL Waiver	$7.6 million	$6.6 million	$10.9 million	$3.0 million	$11.2 million	$7.4 million	$3.5 million	$5.7 million	$9.4 million	$3.5 million	$3.5 million	$2.2 million	$2.2 million	$5.8 million
6**	Rental with Increased Permitted Density and Waiver of Both DCLs	$8.8 million	$7.6 million	$11.7 million	$4.6 million	$13.5 million	$8.0 million	$4.0 million	$6.4 million	$10.3 million	$4.1 million	$4.1 million	$5.4 milllion	$5.5 million	$6.3 million
7***	Rent Control at Turn Over	$3.5 million	$2.6 million	$6.3 million	none	none	$3.9 million	$1.5 million	$2.8 million	$5.0 million	$1.2 million	$1.2 million	$2.2 million	$2.2 million	$2.9 million
8****	Rental with Off-site Infrastructure Upgrades/Costs	not tested	$6.6 million	$10.7 million	$3.6 million	$12.4 million	$7.0 million	$3.0 million	not tested	not tested	not tested	not tested	not tested	not tested	not tested

Notes:

* assumes rental replacement where applicable (i.e. RM and RT scenarios with existing rental units)

** Current incentives available to R100 projects

*** Assumes that unit rents cannot be increased by more than annual RTA allowance at turnover

**** Assumes $1.0 million in off-site utlities and infrastructure costs are required as part of rezoning approval

Exhibit 3 - Impact of Right of First Refusal to Existing Tenants
DRAFT for discussion purposes only

13-Jun-19

Key Assumptions:

a 20% to 40% of existing tenant return at MIHRPP rents
b Returning tenants remain for 7 years on average

Right of First Refusal (ROFR) Scenarios

		Site 9	Site 9	Site 11b	Site 11b	Site 12b	Site 12b
		RT East Side 40% Tenants Return	RT East Side 20% Tenants Return	RM4 East Side built to 1.0 FSR 40% Tenants Return	RM4 East Side built to 1.0 FSR 20% Tenants Return	RM4 West Side built to 1.0 FSR 40% Tenants Return	RM4 West Side built to 1.0 FSR 20% Tenants Return
	Existing Rental Units	10	10	16	16	16	16
	Existing Zoning FSR	0.75	0.75	1.45	1.45	1.45	1.45
	Rezoning FSR	2.6	2.6	2.5	2.5	2.5	2.5
Estimated Profit Margin							
1	Rental with Existing R100 Incentives	15.8%	15.8%	8.2%	8.2%	6.8%	6.8%
2	Rental with Existing R100 Incentives and ROFR	15.0%	15.4%	6.6%	7.4%	5.0%	5.9%
Estimated Supportable Land Value							
1	Value Under Existing Use and Zoning	$6.2 million	$6.2 million	$5.3 million	$5.3 million	$6.8 million	$6.8 million
2	Rental with Existing R100 Incentives	$6.4 million	$6.4 million	$4.1 million	$4.1 million	$5.5 million	$5.5 million
3	Rental with Existing R100 Incentives and ROFR	$6.2 million	$6.3 million	$3.8 million	$4.0 million	$5.2 million	$5.3 million

Exhibit 4 - Rental Only Zoning Analysis for C2 Sites
DRAFT for discussion purposes only

13-Jun-19

Assumptions:

a C2 sites are rezoned to 3.5 FSR rental only

b Strata apartment is no longer a permitted use

Rental Only Zoning Analysis

		Site 2	Site 4
		C2 East Side	C2 West Side
	Address	s.17(1)	
	Existing Zoning FSR	2.5	2.5
	Rezoning FSR	3.5	3.5
1	Existing Income Value	$9.6 million	$10.6 million
2	Existing C2 Land Value	$9.5 million	$13.4 mllion
3	Rental Only Zoning at 3.5 FSR with Existing R100 Incentives	$7.6 million	$11.7 million
4	Impact on Property Value of Rental Only Zoning	none - income value is still highest	negative $1.7 million (13%)
5	Rental at 3.5 FSR with Existing R100 Incentives and C2 Zoning	8%	10%
6	Rental with Existing R100 Incentives and Rental Only Zoning at 3.5 FSR	8%	15%

Exhibit 5 – Implications of Preliminary Financial Analysis

DRAFT for discussion purposes **18 June 2019**

1. For sites currently zoned C1, C2, C3A, RM3, RM3A and RM4:

    - Even with the existing incentives (and no off-site utility upgrades), market rental only generates an estimated profit margin in the range 7% to 11% at the sites that were tested. This is significantly lower than the typical profit margin (15%) required by most multifamily developers to obtain financing and proceed with a new project.
    - Each of the existing rental incentives currently offered by the City helps close the financial gap between market rental development and strata development. Of the existing incentives, the largest positive impact is from increased permitted FSR, followed by the City-wide DCL waiver and the utilities DCL waiver. However, even with all of these incentives, strata residential development is still the most profitable type of housing development at each of the sites that were examined.
    - The existing rental development incentives offered by the City (increased density, DCL waivers) are likely required to make market rental development financially attractive for the vast majority of developers.
    - Any requirement to fund off-site utility upgrades negatively affects the financial viability of new market rental development. The impact depends on the cost of upgrades required.
    - In the absence of the existing incentives we would expect developers to build more strata housing and much less new rental housing in these zoning districts, resulting in less new rental housing supply over time. A reduction in new rental supply will put upward pressure on rents at units throughout the City in both new rental buildings as well as units in existing rental stock.

2. For sites currently zoned RS and RT:

    - Market rental development is financially attractive at the densities the City asked us to test, if the existing rental incentives are offered.
    - Some RS and RT sites may not require all of the existing incentives in order for rental development to be financially attractive. The exception appears to be RS sites in East Vancouver.
    - A requirement to fund off-site utility upgrades negatively affects the financial viability of new market rental development at these types of sites. The impact depends on the cost of upgrades required.

3. For all types of sites tested, a requirement for rent control upon unit turnover has a large negative impact on the financial performance of new rental development. This will make market rental development financially unattractive, likely resulting in a large decline in new rental housing supply over time. A reduction in new rental supply will put upward pressure on rents at units throughout the City in both new rental buildings as well as units in existing rental stock.

4. The impact of any right of first refusal (at below market rents) to existing tenants who are displaced due to redevelopment depends on:

    - The number of existing units that are demolished (fewer units results in less negative impact of profit).
    - The percentage of tenants that return to the new rental building (fewer returning tenants results in less impact).
    - The length of time the returning tenants remain in the new building (less time results in less impact).
    - The rents that the returning tenants can be charged (lower rents results in increased impact).

    Because there are multiple potential variables, it is difficult to quantify the likely typical impact of a right of first refusal to existing tenants. However, the scenarios that we tested indicate that the impact on development profit can be material.

5. If the City downzones existing C2 sites to only allow rental use (removes the existing strata development rights), the impacts will vary depending on the site:

    - Rental-only zoning will reduce land values for C2 sites (unless there was a very large off-setting increase in permitted rental density).
    - However, rental-only zoning will not improve the financial viability of new rental development at C2 sites where the property value that is created by the existing improvements is similar to or higher than the land value created by the existing strata development rights. This is likely the current situation at most C2 sites in East Vancouver. Therefore, we would not expect rental only zoning to improve the financial viability of rental development at C2 sites in East Vancouver.
    - Rental-only zoning will improve the financial viability of new rental development at C2 sites where the property value that is created by the existing improvements is significantly lower than the land value created by the existing strata development rights. This could be the case at C2 sites on the West Side of Vancouver that are improved with older low density buildings (say single storey). Therefore, it is possible that rental only zoning could improve the financial viability of rental development at C2 sites on the West Side. However, it is important to note that the rental-only zoning improves viability because the rental only zoning would reduce property values for these sites.
    - In order to improve the financial viability of rental development and mitigate any impacts on existing C2 land values the City could consider a zoning approach that retained the existing C2 density for strata projects but permitted large increases in residential density for rental projects (through a rental-only density bonus). However, this may require tall concrete buildings.

M E M O R A N D U M

DATE: 9 July 2019

TO: Edna Cho, City of Vancouver

FROM: Blair Erb, Coriolis Consulting Corp.

RE: **Summary of Preliminary Key Findings for Phase 1 of Financial Analysis for Market Rental Policies**

The City of Vancouver retained Coriolis Consulting Corp. to analyze the financial performance of market rental apartment development under current market conditions to determine the effectiveness of existing incentives available to new rental developments and to test potential changes to rental policies. The work was divided into two phases. Phase 1 evaluates the impact on the viability of new rental apartment projects of:

- The existing rental incentives offered by the City (increased permitted density, City-wide DCL waiver, Utilities DCL waiver).
- Off-site utility infrastructure upgrades.
- A right-of-first refusal for existing tenants at rental buildings that are approved for redevelopment.
- Rental-only zoning (at C2 sites).
- Rent control at unit turnover (vacancy control).

The preliminary analysis for Phase 1 has been completed and the key findings are summarized in this memo. Future work during Phase 2 will explore a variety of other new rental policies that could be considered by the City.

In Phase 1, we modelled the likely financial performance of new rental apartment development at a cross-section of different types of sites that have been the focus of rental development over the past several years. We examined twelve sites in different neighbourhoods in the City (some on the East Side and some on the West Side). Sites were selected from a variety of different existing zoning districts, including the C1, C2, C3A, RM3, RM4, RS and RT districts. For each site, we tested the economics of apartment development at rental densities that have recently been achieved in these zoning districts.

The key findings of our preliminary analysis for Phase 1 can be summarized as follows:

1. If the City wants developers to create new rental housing:
    - Development needs to be financially attractive.
    - Sufficient profit is required in order to obtain project financing and address the costs and risks associated with new development. Typically a minimum profit margin of about 15% is required by multifamily residential developers to obtain construction financing and proceed with a new project. However, in specific circumstances, some developers may elect to proceed at a lower margin. For example: in order to mitigate capital gains taxes, long term owners of a property may elect to redevelop at a lower margin rather than sell; developers interested in creating a portfolio of rental properties may accept a lower margin if suitable existing rental properties cannot be purchased; and developers who originally planned a strata project may elect to proceed with a rental project if they are concerned about short term market risks.
2. For sites currently zoned C1, C2, C3A, RM3, RM3A and RM4:

- Even with the existing incentives (and no off-site utility upgrades), market rental apartment development only generates an estimated profit margin in the range 7% to 11% at the sites that were tested. This is significantly lower than the typical profit margin required by most multifamily developers to obtain construction financing and proceed with a new project. It is also lower than the profit margin that can likely be achieved through strata development (under existing zoning).
- Each of the existing rental incentives currently offered by the City helps close the financial gap between market rental development and strata apartment development. Of the existing incentives, the largest positive impact is from increased permitted FSR, followed by the City-wide DCL waiver and the utilities DCL waiver. However, even with all of these incentives, strata residential development is still the most profitable type of housing development at each of the sites that were tested.
- The existing rental development incentives offered by the City (increased density, DCL waivers) are likely required to make market rental development financially attractive for the vast majority of developers. The utilities DCL waiver has the smallest positive impact of the incentives currently offered, but it is an important part of the overall package of incentives.
- Any requirement to fund off-site utility upgrades (separately from the utilities DCL) negatively affects the financial viability of new market rental development. The negative impact depends on the cost of upgrades required and size of the rental project. The impact can be large on smaller projects.
- In the absence of the existing incentives offered by the City, we would expect developers to build more strata housing and much less new rental housing in these zoning districts, resulting in less new rental housing supply over time. A reduction in new rental supply will result in lower vacancy in the market and put upward pressure on rents at units throughout the City (in both new rental buildings as well as units in existing rental stock).

3. For sites currently zoned RS and RT:

   - If it is permitted, market rental apartment development can be financially attractive at the densities the City asked us to test, if the existing rental incentives are offered.
   - Depending on the permitted density, some RS and RT sites may not require all of the existing incentives in order for rental development to be financially attractive. The exception appears to be RS sites in East Vancouver which may require all of the existing incentives.
   - A requirement to fund off-site utility upgrades negatively affects the financial viability of new market rental development at these types of sites. The impact depends on the cost of upgrades required and the size of the rental project.

4. The City is interested in examining rental-only zoning in the C2 district. There are different approaches to rental-only zoning that can be considered. If the City downzones existing C2 sites to only allow rental use (removes the existing strata development rights), it will reduce the land value of C2 sites (unless there was a very large off-setting increase in permitted rental density) and negatively affect existing property owners. In addition, although rental-only zoning will reduce C2 land values, it will not reduce market rental rates. The implications for the viability of new rental development will vary depending on the site:

   - Rental-only zoning will not improve the financial viability of new rental development at C2 sites where the value of the existing improvements is similar to, or higher, than the site's land value as a strata development site. This is likely the current situation at most C2 sites in East Vancouver. Therefore, we would not expect rental-only zoning to improve the financial viability of rental development at most C2 sites in East Vancouver.
   - Rental-only zoning will improve the financial viability of new rental development at C2 sites where the value of the existing improvements is significantly lower than the existing land value as a strata development site. This could be the case at many of the C2 sites on the West Side of Vancouver that are improved with older low density buildings (say single storey). Therefore, it is possible that rental-only zoning could improve the financial viability of rental development at C2 sites on the West Side.

However, it is important to note that the rental-only zoning improves viability only because the rental-only zoning would reduce property values for these sites. This will have a significant impact on existing property owners. At reduced values, existing owners may choose to hold sites rather than sell for redevelopment.

An alternative approach that could improve the financial viability of rental development and mitigate any negative impacts on existing C2 property owners is to introduce zoning that retains the existing C2 density for strata projects, but permits increases in residential density for rental projects (through a rental-only density bonus). This may require tall concrete buildings.

5. A right of first refusal (at below market rents) to existing tenants who are displaced due to redevelopment will have a financial impact on the rental developer. The impact depends on:

- The number of existing units that are demolished (fewer units results in less negative impact of profit).
- The percentage of tenants that return to the new rental building (fewer returning tenants results in less impact).
- The length of time the returning tenants remain in the new building (less time results in less impact).
- The rents that the returning tenants can be charged (lower rents results in increased impact).

It is not possible for a developer to accurately estimate the impact in advance due to the number of variables that are uncertain. The impact could be small or it could be large. Lenders will likely assume the largest financial impact which makes it more challenging for a rental developer to obtain project financing.

6. The Residential Tenancy Act (RTA) restricts annual rent increases to the Consumer Price Index (CPI) until a tenant vacates the unit (until 2018, the RTA allowed annual rent increases of CPI plus two percentage points). At turnover, rents are permitted to be increased to market. CPI is typically lower than the annual increase in market rents. If rent increases were also restricted to CPI at turnover (vacancy control), it would have a large negative impact on the financial performance of new rental development because:

- The value of the newly completed rental building would be significantly reduced due to lower potential rents over time.
- Property taxes and other operating costs incurred by the building owner (these have historically increased at a faster rate than CPI) could increase at a faster pace than rents, resulting in lower income over time.

We would expect rent control at unit turnover to make market rental development financially unattractive, likely resulting in a large decline in new rental housing supply over time.

A reduction in new rental supply will result in lower vacancy in the market and put upward pressure on rents at any unregulated units throughout the City.