From: **"Mochrie, Paul"**
To: **"Direct to Mayor and Council - DL"**
Date: 2024-06-07 7:25:58 AM
Subject: For Information: 2024 Inflationary Rate Adjustment
Attachments: 2024 Inflationary Rate Adjustment - Paul Mochrie and Armin Amrolia - May 29 2024.pdf

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Good afternoon Mayor and Council,

Next month, Council will be receiving a staff report with recommendations for the annual inflationary adjustments to development cost levies, fixed-rate CACs and density bonus contributions. Consistent with our standard process, advance notice of those recommendations has been provided to the Urban Development Institute (UDI) for their information and comment (as per the attached correspondence).

It is possible that you may receive communication regarding this matter over the coming weeks. The following is provided as background regarding the annual rate adjustments and the approach that staff will be recommending for 2024.

- The annual inflationary rate adjustment for DCLs, CAC Targets and Density Bonus Contributions reflects the impact of inflation on the cost to deliver essential growth-supporting infrastructure (e.g. water, sewer, transportation and other amenities).

- The inflation adjustment is calculated based on industry benchmarks for construction and land costs. The City commissions economic testing to ensure that development can absorb these costs and that the rates do not inhibit development.

- As part of the annual rate review process, staff share the recommended inflationary rate adjustment with the development industry. Feedback from industry is considered and reflected in the report to Council.

- For 2024, staff are planning to recommend as follows:
    - Defer the inflationary increase of 5.7% that would typically be applied on Sept, 30 2024 to Sept 30, 2025. This deferral reflects continued market uncertainty and the current interest rate and construction cost environment.
    - As per Council s decision to defer the 2023 inflationary increase of 8.3%, that adjustment will take effect on Sept 30, 2024.

- The recommendation balances the need to deliver growth-related infrastructure, while recognizing the challenges of current real estate conditions.
    - As additional context, the City also offers generous DCC waivers for rental tenure. Last year, 80% of new apartment approvals in Vancouver were rental tenure and therefore eligible for a DCC waiver. Over the past 3 years, the City has waived $55 million in DCC revenue to facilitate rental development.

- Vancouver has been advocating that the Federal Government partner with municipalities to enable housing delivery by developing new and/or expanding existing funding programs for infrastructure required to accommodate growth including water, sewer and amenities.

- New housing supply will continue to be limited by basic infrastructure like water, sewer, utilities, transportation and amenities. Additionally, the transition to rental and non-market housing, along with rising land and construction costs and increasing interest rates, makes it difficult to fund infrastructure and amenities through the "growth pays for growth" approach, rendering the delivery of the right housing supply financially unsustainable.

- Stable, predictable funding for infrastructure, transportation and amenities is needed to maximize the development of new housing supply. Based on expected growth, the City 10-Year Capital Strategic Outlook estimates that new and expanded infrastructure and amenity needs over the next 10 years to be in the range of $8 to 10B.

If you have questions regarding this matter in advance of receiving the formal report from staff, please let me know.

Best,
Paul

Paul Mochrie (he/him)
City Manager
City of Vancouver

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The City of Vancouver acknowledges that it is situated on the unceded traditional territories of the xʷməθkʷəy̓əm (Musqueam), Sḵwx̱wú7mesh (Squamish), and səlilwətaɬ (Tsleil-Waututh) Nations.

OFFICE OF THE CITY MANAGER
Paul Mochrie, City Manager
Armin Amrolia, Deputy City Manager

May 29, 2024

Rick Ilich
Chair, Urban Development Institute

Anne McMullin
President & CEO, Urban Development Institute

Dear Rick and Anne:

RE: 2024 Inflationary Rate Adjustment

As valued partners, we wanted to reach out to give you advance notice of the 2024 inflationary rate adjustment report that will be brought forward on July 9, 2024 for consideration by Vancouver City Council.

Since its inception in 2010, the inflationary rate adjustment system provides regular, predictable adjustments to pre-set development contribution rates (DCLs, CAC Targets, density bonus contributions) on September 30 of each year. As a result, the system mitigates potentially large year-over-year rate increases for the development industry while allowing the City to keep pace with increases in the cost of building the infrastructure needed to support new housing and job space.

Based solely on the application of the inflationary rate adjustment system, all pre-set development contributions would increase by 5.7% in 2024. However, we are highly sensitive to the continued market uncertainty and the sustained high interest rate and construction cost environment. Accordingly, staff will be recommending to City Council to defer the 5.7% increase from 2024 to September 30, 2025.

As a reminder, City Council deferred the 2023 DCL inflationary rate adjustment of +8.3% to September 30, 2024. This increase that is set to take place in the fall is relatively small, accounting for only 0.1 to 0.3% of total development costs depending on the type of project. In addition, the majority of new apartment approvals in Vancouver are rental tenure and eligible for a DCL waiver. Over the past 3 years, the City has waived $55 million in DCL revenue to facilitate rental development.

It should be noted that Metro Vancouver's DCC rates are scheduled to increase at a level that is six times greater than the City's DCL rates. Additionally, the Metro DCC does not offer a waiver for market rental housing.

Given the multitude of recent provincial legislation on housing targets and Transit Oriented Areas, the City is obligated to ensure that basic infrastructure like water, sewer, transportation

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and amenities are adequately provided to support housing delivery. The City's 10-year capital investment outlook estimates infrastructure and amenity needs t in the range of $8 to $10 billion. Growth-related costs that exceed funding supported by your industry through development contributions represent a massive liability for existing residents and business owners who will absorb those costs through property taxes.

Through extensive economic testing, the City ensures development contributions are not set at a level that impedes development viability. The City is also working methodically to rationalize infrastructure needs to support housing and job delivery. As water, sewer and transportation infrastructure are integrated into broader regional systems, this highlights the critical need for a long-term regional infrastructure plan and financial strategy, including how costs are shared among the various municipalities in Metro Vancouver.

The City has been a strong advocate for a regional infrastructure plan for the Metro Vancouver area to support growth, as well as modernization of the municipal growth framework which may include new and expanded funding tools. We would strongly encourage UDI, and its members, to echo this call for action from the provincial and federal governments, the Metro Vancouver Regional District and TransLink to develop a sustainable solution to fund housing-enabling infrastructure.

We would also like to use this opportunity to address concerns that UDI has shared regarding the Community Amenity Contributions (CAC) implications of the federal GST Rental Rebate for purpose-built rental housing projects. Please be assured that City will not be seeking additional CACs resulting from the GST Rental Rebate.

Again, we recognize the challenging environment that you and your members are navigating presently in your work to build much-needed housing and job space in this region. We are committed to continue working with UDI towards our common goals of efficient urban growth, good planning practices and building a strong city.

If you have any questions or comments regarding this matter, please contact Deputy City Manager Armin Amrolia If you have specific comments on the inflationary adjustment, we would appreciate a response before June 11, 2024. We would be happy to meet to further discuss any of the topics raised in this letter.

Yours truly,

Paul Mochrie
City Manager

Armin Amrolia
Deputy City Manager