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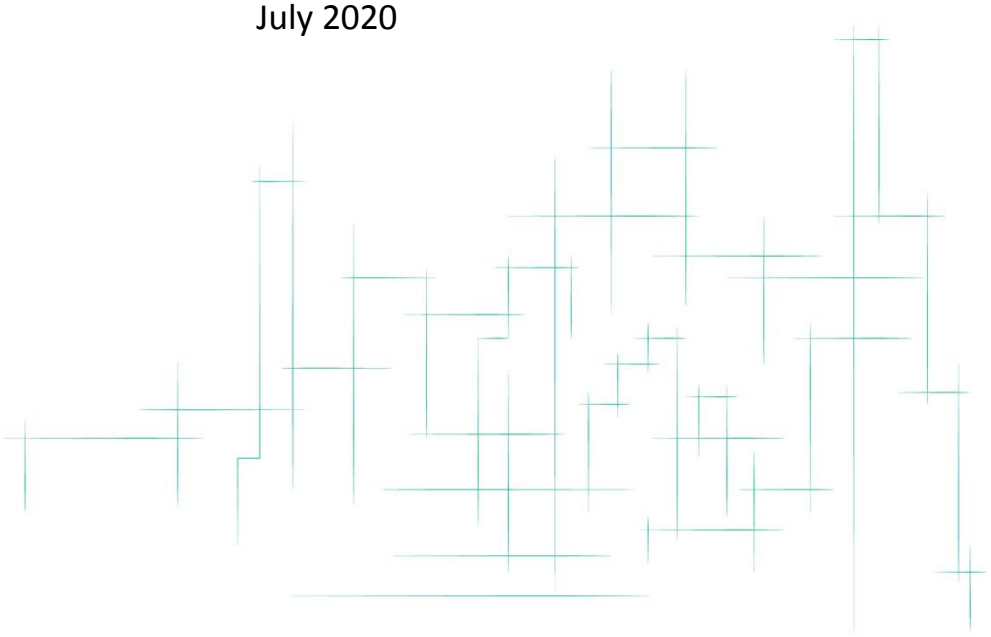
Land Economists – Development Strategists

Nanaimo Community Amenity Contribution Study

Prepared For: City of Nanaimo

July 2020



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Executive Summary

G. P. Rollo & Associates (GPRA) have been retained to assist the City of Nanaimo (the City) in reviewing their approach to community amenity contributions (CACs) and working towards updating the City's CAC program.

CASE STUDIES

GPRA has compared the bonus density and CAC policies of a selection of municipalities throughout BC. The selection is not intended to be comprehensive or to highlight the municipalities that use density bonusing measures most, but rather to explore municipalities that resemble Nanaimo in terms of size and/or urban context. This analysis is summarized in Table A and presented in detail in Section 3.

Table A: Case studies summary

Municipality	CAC Rates
Central Saanich	$2,000 per unit or equivalent for non-residential development for Affordable Housing; $5,500 per unit or equivalent for general amenities
Colwood	$2,500 per single family/townhouse/duplex; $1,500 per apartment unit
Langford	$3,500-$7,000 per large SF lot; $2,310-$4,620 per small SF lot or duplex unit; $2,135-$4,270 per multi-family unit;
Langley City	$2,000 per unit
Maple Ridge	$5,100 per one-family lot; $4,100 per townhouse dwelling unit; $3,100 per apartment dwelling unit; bonus density $3,100 per multifamily unit or additional lot
Nanaimo	$1,000 per unit
North Saanich	$16,000 per additional single family lot; $9,500 per townhouse/patio home unit; $8,000 per apartment unit
Pitt Meadows	$2,100 per unit for single family; $2,800 per unit for townhouse; $2,400 per unit for apartments
Surrey	Capital cost of NCP amenities determined by City in 31 NCP areas; Average is roughly $1,281 per unit
Township of Langley	$5,673 per one-family lot; $4,814 per ground oriented multi unit; $3,782 per apartment unit (wood frame); $2,923 per apartment unit (concrete); + $103,000 per acre in Willoughby
Victoria	Variable CACs by neighbourhood ($5, $20, & $35 per sq.ft. of bonus area), Negotiated ad hoc; Framework for density bonus adopted for rentals

Based on the case study analysis presented in Section 3, GPRA has identified the following best practices:

- Both density bonusing and CAC policies are acceptable to the market and easy to implement. If demand for development is present, these policies tend to see very high rates of use.
- Using both approaches is common and helps to avoid loopholes, as density bonusing covers projects that do not require rezoning, and CACs cover projects that do require rezoning.
- For ease of administration and maximum clarity for developers, CAC expectations should be expressed in a straightforward table of rates similar to DCCs. These should be updated periodically to reflect changes in the market.
- A "stepped" approach in which different rates apply to different density ranges may be beneficial:
    - It allows the City to directly control the development incentives. For instance, this can be used to encourage higher density through diminishing rates
    - It can be used to reflect the jump in cost from wood frame to concrete construction, again by diminishing the rates above certain thresholds
    - It can be used to better match the financial realities of a project, increasing the program's efficacy.
- When a land lift approach is used, cities tend to aim for contributions in the 25% - 75% range. Communities that have significant development interest in higher density development like Victoria tend to come in at the higher end of this range. Smaller municipalities with less demand tend to be near the lower end of this range. This reflects a gradual transition from lower rates to higher rates that Nanaimo should consider deliberately emulating.

In general, most municipalities secure any CACs (either cash or in-kind) during the rezoning process, most often before or at third reading. Although one can defer collection of fees payable until later in the development process this does open the door for developers to ask for a re-evaluation of the fee and perhaps try to reduce it or not pay it altogether. More appropriate would be to set what the CAC is by third reading with the payment or in-kind delivery schedule incorporated into the title on the property through a covenant on title. The City's current policy of securing the contribution at rezoning and is payable at the time of issuance of the Building Permit would be a perfectly acceptable approach to how to handle this sort of phased agreement. The amount payable should be set at the rates in effect at the time the rezoning is granted (although consideration could be given to indexing of the amount payable at CPI between 3rd reading and when the CAC is paid, at the discretion of the City), and would only be subject to change should there be further amendments to the zoning.

Although many municipalities assume that land lift per additional density is equal to the land value per base density (so for example, doubling the density would double the land value), this is not the case. This may be true under certain conditions, but in reality land lift may fall short or exceed this amount. For instance, switching from wood frame to concrete construction tends to reduce land lift due to increased costs.

Using this popular but incorrect assumption can negatively impact development by assuming some types of density to be more viable than they are. Instead, GPRA recommends using a residual land value approach to calculate an appropriate stepped fee framework, and to update this analysis periodically.

FINANCIAL ANALYSIS

GPRA has run an economic analysis of the potential increase in land value supported after a rezoning to a higher density and has determined that there is evidence the City of Nanaimo can increase the CACs rates they seek to secure though rezoning.

The City provided GPRA with 7 hypothetical residential case studies to use for modelling the financial analysis. These cases are intended to represent those types of rezonings the City sees most often and expect to see in the future.

The financial analysis is intended to illustrate the economic benefits to a developer from the additional density being made available, and at a high level it should reveal what potential there is to collect monies for amenities without adversely affecting developers' bottom line under current market conditions.

The analysis indicates that there should be potential for the City to increase current CAC rate targets.

GENERAL CONCLUSIONS & RECOMMENDATIONS

Considering both the policy review and to the economic analysis GPRA offer the following conclusions and recommendations regarding a made in updating Nanaimo's Community Amenity Contribution policy:

1: Update City-wide flat fee CAC

- As with DCCs, the City could bring in area specific CACs at some point in the future if specific projects or amenity needs are identified for a particular area of the City.
- The City can, and should, reserve the right to continue to negotiate on a site specific rezoning where the rezoning is either something not considered in the OCP or for CD zones.
- Most of the communities surveyed in the policy review do not collect CACs from industrial development or commercial development, but the City can continue to use existing rates for CACs and negotiate amenities with developers of these uses.

2: Ensure the fee is affordable for developers

- A key measure GPRA recommends is to allow for a grace period when introducing a flat fee CAC.
- At the least ensure all applications in stream up to a pre-set date are grandfathered in under current policy, or developers are allowed the option of opting into the new program early to allow for cost certainty rather than being subject to an ad hoc analysis.
- Start temporarily with a low/nominal fee to introduce the concept to developers and allow for them to adjust expectations regarding land purchase pricing to reflect the new fees.

3: Conduct periodic reviews of rates

- As with the DCC program the City should conduct a periodic review (GPRA recommends not less than every 5 years and no more than every 2 years) to determine the economics of development and the ability for development to contribute CACs and adjust rates accordingly after each review.

4: Consider using a basket of goods approach with a municipal assist factor

- The Provincial Government recommends the municipalities use a basket of goods approach to CACs and the development community is more receptive to rates if they understand what amenities monies are being collected to pay for.
- Council, departments, and committees would need to identify specific amenities or facilities that would be needed in the future and estimate costs to determine CACs.
- Although policy allows for communities to collects CACs to pay for amenities that are lacking in already developed areas, there is a perceived fairness factor in laying the burden entirely on new development rather than paying for a portion of some amenities through general revenue or other means.

5. Potential Updated CAC rates

Given our research and analysis GPRA recommends the City increase its CACs as follows:

- **Single Family**: $3,000 per unit in 2021; $5,500 per unit in 2022, and $8,000 per unit in 2023 and beyond.
- **Townhouse**: $2,500 per unit in 2021; $5,000 per unit in 2022, and $7,500 per unit in 2023 and beyond.
- **Strata Apartments**: $2,000 per unit in 2021; $3,500 per unit in 2022, and $5,000 per unit in 2023 and beyond.

After this point best practices recommend periodic reviews of rates on a rotating basis, similar to how jurisdictions review their DCC rates every three to five years. In the intervening period rates could be indexed at CPI every year.

With regard to the question of what the impact of a CAC is on housing pricing and who ultimately pays for it the short answer is that the sales price of a residential unit is driven by the what the market will bear, not by costs. Furthermore, CACs generally make up a relatively insignificant part of an overall cost for a project, often less than 1% of the total cost. In theory it is technically the current landowner who is selling their property to a developer will have the purchase price reflect the cost of a CAC to a developer in the land sales price.

With regard to the impact of the COVID-19 pandemic, as of this writing we are still in the midst of this crisis and it will be difficult to determine how much the housing market will truly be affected. Many economists feel that the impact will be over the next 1-3 years with a relatively quick recovery with support from senior levels of government. Insofar as how this affects the land lift in the financial analysis GPRA feels that those will be relatively minor as all housing will be affected which will mitigate some on the impact on the land lift. However, should there be a concern that the timing might be wrong to bring in an increase during a pandemic the City could look at delaying any increase until such time as the pandemic warning has been removed or could look at a gradual increase over time with increments on a quarterly or semi-annual basis.

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1 Introduction

G. P. Rollo & Associates (GPRA) have been retained to assist the City of Nanaimo (the City) in reviewing their approach to community amenity contributions (CACs) and working towards the updating the City's CAC program. Specifically, GPRA has been tasked with:

1) Providing an understanding of the legislative framework for density bonusing and CACs, and how such programs differ

2) Researching density bonus programs in comparable jurisdictions and evaluating their relative strengths and weaknesses

3) Meeting with City staff to better understand their aspirations for community benefits to be funded through the program

4) Developing a CAC Program for the City and providing analyses and recommendations that are market-driven and supported by an understanding of the financial realities of development in the City

5) Making recommendations as to how to best manage the program and ensure that it is kept current to reflect changing market conditions; and make recommendations regarding the existing program

6) Provide a rationale for increasing the CAC per unit rates from the $1,000 per unit charge that has been in place for more than a decade.

2 Principles and Definitions

2.1 Legislative framework

Amenities and contributions are typically obtained through two general approaches:

1. Density bonusing, in which the zoning bylaw establishes the permissible density with and without a contribution, and sets the amount and type of contribution required for additional density.

   Since it is part of the zoning bylaw, bonus density is available as of right and is not up to Council discretion as long as the contribution requirements are met.

2. Community amenity contributions (CACs), in which a contribution is negotiated as part of the rezoning process; this remains a matter of Council discretion.

In British Columbia, density bonusing is expressly enabled in the Local Government Act:

> Section 482
>
> (1) A zoning bylaw may
> (a) establish different density regulations for a zone, one generally applicable for the zone and the other or others to apply if the applicable conditions under paragraph (b) are met, and
> (b) establish conditions in accordance with subsection (2) that will entitle an owner to a higher density under paragraph (a).
>
> (2) The following are conditions that may be included under subsection (1) (b):
> (a) conditions relating to the conservation or provision of amenities, including the number, kind and extent of amenities;
> (b) conditions relating to the provision of affordable and special needs housing, as such housing is defined in the bylaw, including the number, kind and extent of the housing;
> (c) a condition that the owner enter into a housing agreement under section 483 before a building permit is issued in relation to property to which the condition applies.[1]

It is now accepted that the amenity contributions listed in Section 482.2 may take the form of cash as long as this cash is put towards said amenities.

Unlike density bonusing, CACs are not expressly enabled by the Local Government Act, but are considered part of the normal rezoning process. In other words, negotiation prior to rezoning is permissible by default and amenity contributions are part of this process. However, the Ministry of

[1] Local Government Act (2015). Queen's Printer, Victoria.

Community, Sport and Cultural Development has published a guide to CACs which reiterates that they should be voluntary and discretionary for both parties:

> Local governments do not have legal authority to require applicants for rezoning to pay CACs. They must ensure that any CACs are obtained as part of a negotiation process. Local governments must also not commit to pass a rezoning bylaw on the condition that CACs are provided. Council and regional board members are legally required to remain open-minded on a proposed rezoning, until they have heard the public's perspectives at the public hearing.
>
> It is important to keep in mind that zoning is intended to implement the community plan and should not be seen as a revenue source. Being perceived to be "selling zoning" can undermine public confidence in the community plan and the council/regional board's commitment to the plan.[2]

2.2 Flat fee versus site analysis

Despite the imperative to keep CACs flexible and open-ended for the reasons listed in the Ministry guide above, municipalities in BC are increasingly releasing schedules of CAC targets much like DCC rates. This "flat fee" approach has the advantage of:

- Improving transparency and fairness
- Increasing developer and investor confidence
- Reducing administrative costs for developers and governments
- Facilitating faster development
- Allowing public input regarding requested amenities.

Because it is built into the zoning bylaw and needs to be formulaic, density bonusing almost always uses a flat fee approach, but not all municipalities approach CAC negotiations in this way. Many still rely on a project-by-project "site analysis" approach to CACs, in which each major rezoning application is analyzed to determine the contribution it can financially support. The site analysis approach is most appropriate for unusual or uncertain projects:

- Comprehensive developments
- Rezonings not anticipated in the OCP
- Large phased projects.

But the site analysis approach is not preferred by developers or most municipalities because it:

- Creates uncertainty regarding project costs, reducing investor and developer confidence

[2] Ministry of Community, Sport and Cultural Development (2014). Community Amenity Contributions: Balancing community planning, public benefits and housing affordability. Retrieved on 2018/04/27 from http://www.cscd.gov.bc.ca/lgd/intergov_relations/library/CAC_Guide_Full.pdf

- Is administratively challenging, which is difficult for small developers and inexperienced municipalities
- Tends to slow the development process.

2.3 Setting rates

There are two basic approaches to determining density bonus contribution rates or CAC negotiation targets:

1. Basket of goods: contribution rates or CAC targets are allocated to developments based on the pre-determined amenity requirements of the community or area.
2. Land lift: contribution rates or CAC targets are allocated to developments based on how much they are able to contribute, or based on the increase in the project's land value that occurred or would occur due to increased density. This is discussed in more detail below.

Developers typically prefer the "basket of goods" approach because it is perceived as fairer and usually produces lower rates. However, since the basket of goods approach is not connected to developments' ability to pay – instead being based on the community's needs – it is possible for rates generated in this way to overburden developers. Thus, a blended approach is generally preferred: rates should be in line with the community's needs (basket of goods approach) but not more than developments can support (land lift approach).

2.4 Land lift

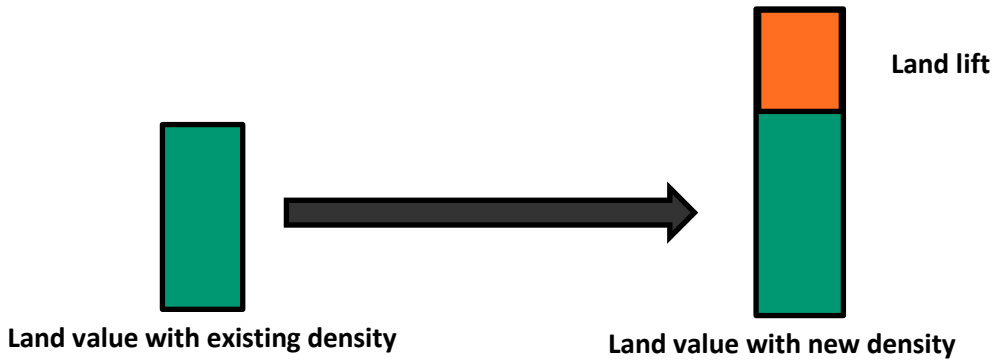
Because it results directly from the increase in density, the increase in land value from one density to another – called "land lift" – may be attributed to the rezoning or the bonus density, and is therefore arguably the result of City policy rather than developer work.

That permitting denser or more valuable projects on the same site tends to produce increases in land value is demonstrably true in the market, but the market is also fluid, flexible, and subject to speculation. For this reason, estimating the amount of land lift from a particular rezoning or density bonus through market research is impossible. A better approach to estimating land lift is theoretical: if costs and revenues are all set by the market and estimable, then assuming a constant profit margin – say 15% profit to costs – the corresponding value of the land that would produce that profit margin may be determined. How this "residual land value" changes with density reveals the land lift from a rezoning or density bonus.

When a parcel changes hands after rezoning, the purchaser might pay more than this theoretically derived amount or less, in which case they are likely to achieve a greater or narrower profit margin. In general, land values do rise and fall basically in line with these theoretical estimates.

An example of calculating land lift follows. Figure 1 reflects hypothetical residential development based on two densities: a base density permitted under current zoning, and a revised density permitted after a rezoning.

Figure 1: Land Value at Base Density versus Land Value at Rezoned Density



In the example above, with permissions granting an increase in density there is a rise in the value that a developer could afford to pay for that same parcel of land. The bar on the left represents the base value for the land under current zoning that a developer might pay based on current expectations of revenues and costs, as well as an allowance for developer profit. The bar on the right shows the base value for the land plus the increased value the developer could pay for the land with a higher density of development permitted, again based on current expectation of revenues and costs along with an allowance for profit.

It should be noted that this increase in land value is reflective of the change in permitted density and or use. It is not a value that is representative of the native development rights carried under existing zoning, and as such the current property owner should not expect to achieve this value for their land on the right if they are assuming no costs or risks in trying to rezone their land. The value on the left represents current market values for land, inherent in which is the value increases over the years the property has been held through increases in market value for land.

The revenue from a project is set by the market and out of the developer's control, so assuming a developer intends to achieve a given profit margin, if CACs are required for a rezoning or if a cash contribution is required for bonus density, then the developer must lower their costs elsewhere to maintain the project's profitability. Most costs are also set by the market and out of the developer's control, except for the price of land.

In other words, CACs or bonus density contributions should decrease the land's value, basically "dollar for dollar", rather than impacting profit margins or product prices. That is, if $1 million of CACs were required from a project, this would have resulted in a $1 million decrease in the land's value. In GPRA's experience this is exactly what occurs in jurisdictions with CACs or density bonusing, once the land market has time to adjust to the new policy framework.

Density bonus rates and CACs should not exceed the land lift for a given project, because that would increase the project's costs more than the added density increased the project's revenues. In other words, the land lift amount acts as threshold above which CACs or density bonus payments are likely to negatively impact project viability. A developer would have no reason to use the CAC or density bonusing policy in that scenario because the added burden would be bigger than the added benefit.

In closing, land lift reflects the impact of changing density, and the land lift exists with or without CAC or density bonusing policies. In jurisdictions without such policies, or where those policies are avoided or not applied, the land lift still exists but is captured by the developer or the land vendor, or in most cases split between the two. CAC and density bonusing policies simply allow the public to access some share of the land lift so that the neighbourhood benefits from the added density.

3 Case Studies

This section compares the CAC policies of a selection of municipalities throughout BC. The selection is not intended to be comprehensive or to highlight the municipalities that use these measures most, but rather to explore municipalities that resemble Nanaimo in terms of size and urban context. The selected municipalities are:

- Central Saanich
- Colwood
- Langford
- Langley City
- Maple Ridge
- North Saanich
- Pitt Meadows
- Surrey
- Township of Langley
- Victoria

Table 1 below summarizes the CAC and density bonusing policies of these ten jurisdictions along with Nanaimo's current CAC rate.

Table 1: CACs in Comparable Jurisdictions Case studies Summary

Municipality	CAC Rates
Central Saanich	$2,000 per unit or equivalent for non-residential development for Affordable Housing; $5,500 per unit or equivalent for general amenities
Colwood	$2,500 per single family/townhouse/duplex; $1,500 per apartment unit
Langford	$3,500-$7,000 per large SF lot; $2,310-$4,620 per small SF lot or duplex unit; $2,135-$4,270 per multi-family unit;
Langley City	$2,000 per unit
Maple Ridge	$5,100 per one-family lot; $4,100 per townhouse dwelling unit; $3,100 per apartment dwelling unit; bonus density $3,100 per multifamily unit or additional lot
Nanaimo	$1,000 per unit
North Saanich	$16,000 per additional single family lot; $9,500 per townhouse/patio home unit; $8,000 per apartment unit
Pitt Meadows	$2,100 per unit for single family; $2,800 per unit for townhouse; $2,400 per unit for apartments
Surrey	Capital cost of NCP amenities determined by City in 31 NCP areas; Average is roughly $1,281 per unit
Township of Langley	$5,673 per one-family lot; $4,814 per ground oriented multi unit; $3,782 per apartment unit (wood frame); $2,923 per apartment unit (concrete); + $103,000 per acre in Willoughby
Victoria	Variable CACs by neighbourhood ($5, $20, & $35 per sq.ft. of bonus area), Negotiated ad hoc; Framework for density bonus adopted for rentals

Most municipalities measure density in their CAC and density bonusing policies by the same metrics used in their zoning bylaws. This is intuitive because it allows clear comparison and prevents loopholes. Thus, most municipalities use some combination of per built area, per unit, or FSR metrics. However, there are a few exceptions and nuances: All rezonings in eligible areas in the Township of Langley, and all commercial rezonings in eligible areas in Surrey require CACs at rates expressed per acre. In other words, these are not density bonuses as much as rezoning charges. Other communities such as Victoria expressly request contributions based on site analysis to determine land lift, at least in some cases. Other municipalities perform land lift calculations prior to setting their rates.

What amenities are funded by these policies? Popular options include:

- Affordable housing
- Underground parking
- Civic facilities
- Parks and paths
- Public art

Some municipalities' density bonusing and CAC policies apply only to particular land uses in particular areas, including Township of Langley, Pitt Meadows, and Victoria. Others apply to all developments, such as Langley City and Langford. Coquitlam, Maple Ridge, and City of North Vancouver have density bonusing policies that apply in limited areas but CAC policies that apply everywhere.

In general, most municipalities secure any CACs (either cash or in-kind) during the rezoning process, most often before or at third reading. Although one can defer collection of fees payable until later in the development process this does open the door for developers to ask for a re-evaluation of the fee and perhaps try to reduce it or not pay it altogether. More appropriate would be to set what the CAC is by third reading with the payment or in-kind delivery schedule incorporated into the title on the property through a covenant.

The specific details of some jurisdiction's experience is discussed in more detail in the following sections.

3.1 Surrey

Type
Density bonus

Formula
Fixed fees per additional unit (residential) or per land area (non-residential), which vary by area based on a basket of goods.

Maximum bonus
Varying by zone

Objective
Police, fire, library, parks, paths, and facilities

Eligibility
Neighbourhood Concept Plan areas (31 designated throughout Surrey)

Comments
The City of Surrey officially has a density bonusing policy as well as a CAC policy, but the CAC policy has been waived since 2007 when it was first introduced.

The density bonusing policy establishes higher maximum bonus densities in certain zones and areas, which vary. A basket of goods is estimated in each area – broken down into police, fire, library, and parks & facilities components – which is allocated to the additional density on a per unit basis for

residential, and a per land area basis for non-residential. This policy has been very successful throughout Surrey, although it has been waived in the City Centre and Guildford at times in order to incentivize development.

Surrey's proposed but never-implemented CAC policy aims to target rezoning negotiations in the City Centre and Guildford areas to achieve the following:

$$cash\ contribution = \frac{3 \times land\ value \times additional\ floorspace}{4 \times base\ floorspace.}.$$

This is an approximately equal to 75% of the project's land lift, but only under certain market conditions. The real land lift may vary substantially from this number, depending on the project. The document calls this amount "75% of land lift", but this is incorrect. This policy has been waived since 2007 to encourage development, although the City is considering implementing it in the near future.

3.2 Township of Langley

Type
CACs

Formula
Varying by residential type:

- Single family: $5,673 per lot
- Townhouse, rowhouse, or duplex: $4,814 per unit
- Apartment of 1 – 6 storeys: $3,782 per unit
- Apartment of 7 or more storeys: $2,923 per unit.

PLUS about $103,000 per ac of land in certain parts of Willoughby

Objective
Parks, greenways, public art, heritage preservation, police, fire, and library

Eligibility
All rezonings with residential, and all rezonings in selected areas of Willoughby

Comments
The Township of Langley calculated the cost of a basket of goods for parts of the Willoughby area, and then estimated the share of that cost to be about $103,000 per ac of rezoned land (adjusted periodically), which is expected from developers.

According to staff, the policy has been extremely successful and used by almost all new development in Willoughby since its introduction. Developers rarely attempt to deviate from this CAC rate through negotiation. The Township likes the policy and is considering expanding it to other growth areas. The policy has the advantage of encouraging density, since it applies to all rezonings in the area regardless of density. In truth this is not a density bonus but a rezoning fee.

The Township also has a density bonusing program but it is being phased out, and has already been replaced with the current framework in Willoughby.

In addition to the Willoughby-specific policy described above, the Township also recently introduced a municipality-wide CAC schedule (see above) applying to all rezonings that include residential. Both sets of charges are applicable to eligible properties, which is justified by the varying amenities needs of different parts of the Township.

3.3 Maple Ridge

Type
Both

Formula
Density bonus: $3,100 per residential unit

CACs:

- $5,100 per single family lot
- $4,100 per ground-oriented multi-family dwelling (includes townhouses)
- $3,100 per apartment.

Maximum bonus
Density bonus:

Table 2: Maximum density bonus by zone, Albion

Code	Name	Base density	Maximum with bonus
RS-1d	One Family Urban (Half Acre)	2,000 m^2 per lot	557 m^2 per lot
RS-1b	One Family Urban (Medium Density)	557 m^2 per lot	371 m^2 per lot
RM-1	Townhouse	0.6 FSR	0.75 FSR

Objective
Parks, trails, civic facilities, public art, heritage conservation, affordable housing

Eligibility
Density bonus: RS-1d, RS-1b, and RM-1 zones in the Albion Area

CACs: All rezonings with residential

Comments
Maple Ridge introduced density bonusing to the Albion Area in 2012, and since then the policy has been extremely successful, being used by every single eligible development. The contribution amount is unchanged since 2012 so it is an increasingly good deal for developers, which might be a shortcoming of Maple Ridge's approach so far.

Maple Ridge recently expanded the policy to include the City-wide CAC program described above.

3.4 Pitt Meadows

Type
CACs

Formula
$2,100 per single family lot, $2,800 per townhouse, and $2,400 per apartment above the existing density.

Objective
Community civic facility, public art, affordable and special needs housing, parks, trails, significant ecological features, other projects.

Eligibility
Rezonings with residential in the Urban Containment Boundary, excluding affordable and special needs housing and accessory dwelling units.

Comments
This opportunity has not been taken up by developers yet; Pitt Meadows has trouble even achieving the base density. Parking can only go one level down due to the high water table, which has limited the size of development. This is unlikely to change until demand for development grows to the point where underground parking is viable in this location.

3.5 Langford

Type
CACs

Formula
Table 4: CAC by land use and area, Langford

	Pedestrian Downtown	City Centre	Sooke Road Corridor	Elsewhere
Large lot detached	$3,500 per unit	$5,200 per unit	$4,400 per unit	$7,000 per unit
Small lot detached	$2,310 per unit	$3,432 per unit	$2,904 per unit	$4,620 per unit
Duplex	$2,310 per unit	$3,432 per unit	$2,904 per unit	$4,620 per unit
Multi-family	$2,135 per unit	$3,172 per unit	$2,684 per unit	$4,270 per unit
Commercial, business park, or industrial	$1 per ft^2	$1 per ft^2	-	-

A park and open space contribution is determined at the time of rezoning and is in addition to these amounts.

Outside of the Pedestrian Downtown, City Centre, and Sooke Road Corridor areas, single family rezonings of 15 or more units may waive $15,000 per 15 units in exchange for one affordable housing lot.

Objective
Affordable housing, downtown parking, parks and open space

Eligibility
All rezonings.

Comments
The CAC policy was waived during the Recession because Langford did not want to penalize density. But since then the policy has been enforced and has been extremely successful, with nearly all developments making use of it. Developers prefer the clarity of the table of rates over a negotiated approach as it provides clear guidance.

3.6 Case study conclusions

Based on the case study analysis presented above, GPRA has identified the following best practices:

- CAC policies are acceptable to the market and easy to implement. If demand for development is present, these policies tend to see very high rates of use.
- Using both density bonusing and CACs is common and helps to avoid loopholes, as density bonusing covers projects that do not require rezoning, and CACs cover projects that do require rezoning.
- For ease of administration and maximum clarity for developers, both density bonus contributions and CAC expectations should be expressed in a straightforward table of rates similar to DCCs. These should be updated periodically to reflect changes in the market.
- A "stepped" approach in which different rates apply to different density ranges (or building typologies) may be beneficial:
    - It allows the City to directly control the development incentives. For instance, this can be used to encourage higher density through diminishing rates
    - It can be used to reflect the jump in cost from wood frame to concrete construction, again by diminishing the rates above certain thresholds
    - It can be used to better match the financial realities of a project, increasing the program's efficacy.
- When a land lift approach is used, cities tend to aim for contributions in the 25% - 75% range. Communities that have significant development interest in higher density development like Victoria tend to come in at the higher end of this range. Smaller municipalities with less demand tend to be near the lower end of this range. This reflects a gradual transition from lower rates to higher rates that Nanaimo should consider deliberately emulating.
- A note on unit rates – most municipalities who charge their rates on a per unit basis can do so in two ways:
    - The charge is for each unit in the development, or;

- The charge is applied to each unit in the development beyond that which would have been permitted under the previous zoning and/or density

There is no right or wrong way to apply these rates, but it is important to understand that the difference between these two approaches is simply a matter of the denominator used to determine the unit rate. In the first approach the math takes the amenity value the municipality is seeking to capture and divides it by all the units, so if for example we had a case study where there were 100 units and the value being sought was $100,000, the rate would be $1,000 per unit. In the second approach the math would look at the incremental number of units, so let us say current zoning would allow for 25 units, so there are 75 new units being created. There is still the same $100,000 being sought as a contribution in this example, but that is being divided among those 75 new units, so the indicated rate would be $1,333 per unit.

Although many municipalities assume that land lift per additional density is equal to the land value per base density (so for example, doubling the density would double the land value), this is not the case. This may be true under certain conditions, but in reality land lift may fall short or exceed this amount. For instance, switching from wood frame to concrete construction tends to reduce land lift due to increased costs.

Using this popular but incorrect assumption can negatively impact development by assuming some types of density to be more viable than they are. Instead, GPRA recommends using a residual land value approach to calculate an appropriate stepped fee framework, and to update this analysis periodically.

The next section is an example of such an approach.

4 Financial Analysis of Hypothetical Developments

4.1 Methodology and assumptions

GPRA typically prepares analyses using a standard developer proforma wherein estimates of revenues and costs are inputs and the remaining variable is the desired output. In typical proformas this output is usually profit, following a revenues minus costs equals profit formula. For a residual land valuation, however, an assumption on developer's return needs to be included in order to leave the land value as the variable to solve for. For these analyses GPRA determines the residual value based on the developer achieving an acceptable profit of 15% on total project costs for purely residential projects and for mixed use projects GPRA utilizes separate assumptions for the residential portion at 15% profit on cost and an Internal Rate of Return (IRR) for rental or commercial portions of the project based on a representative portion of overall project costs for the proposed development[3].

The residual values are the maximum supported land value a developer could pay for the site (under the density and conditions tested) while achieving an acceptable return for their project. This means that a developer could pay the indicated value for the land, develop and sell the finished product and achieve a profit of 15% at the end of the day. If by chance the land were bought for less than the indicated value, this would result in an increased profit for the developer and conversely if bought for more than the value indicated there would be less profit for the developer.

GPRA has employed a proforma analysis for the higher density for each hypothetical test site to determine a residual land value for each. The residual land value determined from analysis at each density is then compared to the value of the site under the base density taken from the most recent BC Assessment data on land values in the areas to establish a 'lift' in value that arises from the change in density. This lift in value is the total potential monies that are available for public amenities or other public works not considered as part of the analysis. In conducting these analyses, GPRA has used high level estimates off-site costs for each test site. In reality consideration would need to be given to the actual costs for off-site improvements when negotiating CACs with developers.

GPRA determines revenues used in the analyses from a review of recent sales and offerings for sale of recently developed single family homes, townhouses, and apartments of wood frame and of concrete construction within the City, with a focus on projects that were deemed comparable to the case studies. Costs were derived from sources deemed reliable, including information readily available from quantity surveyors on average hard construction costs in the area. Development or soft costs have been drawn from industry standards, and from the Municipal sources. All other assumptions are derived from a review of the market and from other sources deemed reliable by GPRA.

The analysis is intended to illustrate the entire pool of money that could potentially be available for these specific test cases.

[3] 15% profit on project cost is used as an industry minimum standard developers need in order to consider a project viable and to secure financing through a lender for purely residential developments. The value for the commercial or rental component lies in its return of revenues over a number of years (measured as an IRR) rather than through a sale on completion of construction. The target IRR varies based on observed capitalization rates for similar properties in the area.

4.2 Development case studies

The City has identified 7 hypothetical residential case studies for GPRA to use for modelling the financial analysis. These sites area intended to represent rezoning applications the City receives and expects to receive in the near future.

Table 6: Development case studies

Site #	Proposed Use	Base Value	Proforma Value	Lift	Units	$/Unit
1	Mixed Use	$6,202,402	$7,854,866	$1,652,465	110	$15,022
2	Mixed Use, Rental	$3,728,000	$5,712,990	$1,984,990	178	$11,152
3	Apartment	$1,302,000	$3,042,734	$1,740,734	76	$22,904
4	Townhouse	$77,500	$329,360	$251,860	11	$22,896
5	Townhouse	$1,779,000	$2,142,609	$363,609	21	$17,315
6	Townhouse	$251,000	$331,744	$80,744	5	$16,149
7	Single Family	$247,000	$294,975	$47,975	2	$23,987

The financial analysis is intended to illustrate the economic benefits to a developer from the additional density and change in land use being made available, and at a high level it should reveal what potential there is to collect monies for amenities without adversely affecting developers' bottom line under current market conditions.

As we can see from the table above all of the test cases generate a lift in land value with an increase in density from rezoning. This would indicate that current market conditions support new developments in these forms at this time. This is not to say that these forms of development will always be feasible, nor that there will continue to be potential to create a lift in land value from rezoning as in this analysis in the future.

GPRA will offer some general observations from the hypothetical case study analysis.

- There has been a growing market for low rise and high rise apartments in Nanaimo over the last 5+ years.
- Apartment pricing has largely kept pace with rising construction costs in Nanaimo, including covering the costs of underground parking.
- The commercial mixed use and rental components in two of the apartment case studies have reduced the lift potential compared to a purely strata apartment building. This is consistent with our observations of the economics of both rental apartments and commercial uses, in that they rely on long term investment over a number of years to generate a return for investors as opposed to strata or freehold homes that generate a profit through sales upon completion.

The general take away from the economic analysis is that there is sufficient evidence that the City of Nanaimo could increase CACs through rezoning from $1,000 per unit. However, consideration should be given to a gradual roll out for the increase to allow time for developers and land vendors to adjust.

Since our original analysis was completed and prior to the submission of our first draft a worldwide pandemic was declared by WHO which has affected numerous sectors of the economy, including housing. While the actual impact on housing pricing and the development cycle is difficult to determine while we are still dealing with COVID-19 the general consensus is that the economy will experience 1-3

years of disruption, followed by a relatively swift return to pre-pandemic levels of activity and pricing. The length of the disruption and recover will be related to the length of time to develop a vaccine (if at all), combined with the level of financial support from senior levels of government to those most affected economically by the pandemic and the duration of disruptions to business and employment sectors.

Specific to this exercise it should be noted that negative impacts to the housing market will be felt across the board, i.e. housing prices should decrease for all forms and types during this time of a downturn. This would mitigate many issues around the impact on the land lift analysis in that while prices for apartments or townhouses may decrease, so to would the prices for single family dwellings.

4.3 Proposed Rates

When determining flat fees or rates for CACs best practices are to err on the side of caution and go with the lowest indicated number from the financial analysis so as to minimize negative impacts on development. Furthermore, GPRA generally recommends that in most jurisdictions the rate be set at a 50% capture, meaning that if the analysis indicated there was $10,000 in money available the target for CACs would be $5,000. This allows for more flexibility for developers and allows them a share in the incremental value of the land that can also be used when negotiating the purchase of lands for development.

Given the financial analysis looking at the potential increase in land value from the changes in zoning GPRA would suggest that current rates could be increased as follows:

- Single Family Homes: rates could be increased from $1,000 per unit to as much as $10,000 per unit based on the analysis.
- Townhouses: rates could be increased from $1,000 per unit to as much as $8,000 per unit.
- Strata Apartments: rates could be increased from $1,000 per unit to as much as $5,500 per unit.[4]

These would represent the upper limit that the City could increase rates to based on our analysis. However, given that there may be other cost increases from the City on the horizon (new DCC rates among other possibilities) the City may consider smaller increases or perhaps a graduated increase in rates over the next few years. GPRA's recommendation is as follows:

Single Family: $3,000 per unit in 2021; $5,500 per unit in 2022, and $8,000 per unit in 2023 and beyond.

Townhouse: $2,500 per unit in 2021; $5,000 per unit in 2022, and $7,500 per unit in 2023 and beyond.

Strata Apartments: $2,000 per unit in 2021; $3,500 per unit in 2022, and $5,000 per unit in 2023 and beyond.

After this point best practices recommend periodic reviews of rates on a rotating basis, similar to how jurisdictions review their DCC rates every three to five years. In the intervening period rates could be indexed at CPI every year.

Should there be a concern that the timing might be wrong to bring in an increase during a pandemic the City could look at delaying any increase until such time as the pandemic warning has been removed or could look at a gradual increase over time with increments on a quarterly or semi-annual basis.

[4] GPRA does not recommend that the City seek CACs from apartment units that are designated as rental as these units do not carry the same value as strata units do.

5 Conclusions

5.1 Conclusions from policy research

Based on the case study analysis presented in Section 3, GPRA has identified the following best practices:

- For ease of administration and maximum clarity for developers, CAC expectations should be expressed in a straightforward table of rates similar to DCCs. These should be updated periodically to reflect changes in the market.
- A "stepped" approach in which different rates apply to different density ranges may be beneficial:
    - It allows the City to directly control the development incentives. For instance, this can be used to encourage higher density through diminishing rates
    - It can be used to reflect the jump in cost from wood frame to concrete construction, again by diminishing the rates above certain thresholds
    - It can be used to better match the financial realities of a project, increasing the program's efficacy.
- When a land lift approach is used, cities tend to aim for contributions in the 25% - 75% range. Smaller municipalities with less demand tend to be near the lower end of this range and more mature cities near the higher end. This reflects a gradual transition from lower rates to higher rates that Nanaimo should consider deliberately emulating.

Although many municipalities assume that land lift per additional density is equal to the land value per base density (so for example, doubling the density would double the land value), this is not the case. This may be true under certain conditions, but in reality land lift may fall short or exceed this amount. For instance, switching from wood frame to concrete construction tends to reduce land lift due to increased costs.

Using this popular but incorrect assumption can negatively impact development by assuming some types of density to be more viable than they are. Instead, GPRA recommends using a residual land value approach to calculate an appropriate stepped fee framework, and to update this analysis periodically.

5.2 Conclusions from financial analysis

GPRA has run an economic analysis of the potential increase in land value supported after a rezoning to a higher density and has determined that there is evidence the City of Nanaimo can increase the CACs sought at rezoning.

While not expressly tested in the analysis GPRA believes the City could consider neighbourhood specific CACs to fund amenities that would be of benefit principally to one neighbourhood. That being said there are benefits to introducing a City-wide Policy:

- Unless CACs that are collected are earmarked for a very specific amenity for the benefit of a particular neighbourhood or community it is generally more common to collect monies for the entire City rather than a specific neighbourhood.
- This has the potential to reduce the CAC rates as the costs are being shared by a larger group.
- It establishes a clear policy for the entire City and ensures that one area is not operating under different development expectations than another.
- For areas that do not currently demonstrate the potential to contribute CACs without adverse economic impacts the City could employ incentives or off-sets to ensure development is not impacted by the CACs.
- Generally incentives and CACs operate at cross purposes:
    - Incentives are provided to make development more economically feasible.
    - CACs are collected because there is evidence that there is a surplus in land value created from a change in density/zoning that can fund amenities.
    - Having both in the same area would not be ideal, rather GPRA would suggest that when introducing CACs the City shift incentives to areas of the City that are not currently receiving much development interest, which can in turn help offset a flat CAC.
    - Conversely, the City could also consider waiving CACs in areas where they would like to incent development.

5.3 General Conclusions and Recommendations

Considering both the policy review and the economic analysis GPRA offer the following conclusions and recommendations regarding a Nanaimo's Community Amenity Contribution policy:

1: Update the City-wide flat fee CAC

- As with DCCs, the City could bring in area specific CACs at some point in the future if specific projects or amenity needs are identified for a particular area of the City.
- The City can, and should, reserve the right to continue to negotiate on a site specific rezoning where the rezoning is either something not considered in the OCP or for CD zones.
- Most of the communities surveyed in the policy review do not collect CACs from industrial development or commercial development, but the City can continue to use existing rates for CACs and negotiate amenities with developers of these uses.

2: Ensure the fee is affordable for developers

- A key measure GPRA recommends is to allow for a grace period when introducing a flat fee CAC.
- At the least ensure all applications in stream up to a pre-set date are grandfathered in under current rates, or developers are allowed the option of opting into the new program early to allow for cost certainty rather than being subject to an ad hoc analysis.
- Start temporarily with a low/nominal fee to introduce the concept to developers and allow for them to adjust expectations regarding land purchase pricing to reflect the new fees.

3: Conduct periodic reviews of rates

- As with the DCC program the City should conduct a periodic review (GPRA recommends not less than every 5 years and no more than every 2 years) to determine the economics of development and the ability for development to contribute CACs and adjust rates accordingly after each review.

4: Consider using a basket of goods approach with a municipal assist factor

- The Provincial Government recommends the municipalities use a basket of goods approach to CACs and the development community is more receptive to rates if they understand what amenities monies are being collected to pay for.
- Council, departments, and committees would need to identify specific amenities or facilities that would be needed in the future and estimate costs to determine CACs.
- Although policy allows for communities to collects CACs to pay for amenities that are lacking in already developed areas, there is a perceived fairness factor in laying the burden entirely on new development rather than paying for a portion of some amenities through general revenue or other means.
- It should also be noted that CAC funds can be used for housing initiatives such as not for profit partnerships, land purchases, housing reserve funds, etc. that can directly target the needs of households that are unable to afford market priced housing.

5. Potential Updated CAC rates

Many factors should be considered when determining a potential updated CAC flat fee rate:

- What is the cost of the amenities CACs are meant to pay for?
- How much can developers pay toward amenities without adversely affecting the economic viability of their projects?
- How does a CAC fit in with all other City fees and charges for development?
- How does the potential fee compare to neighbouring municipalities?
- What impact do CACs have on housing prices? Is the purchaser of new units ultimately the one that pays the costs of a CAC?

GPRA can only consider three of these questions at this time. The first two are, how much can developers contribute and how does a potential fee compare to neighbouring municipalities?

Regarding the first, the economic analysis indicated that Nanaimo development demonstrated lift from rezoning to higher density. In order to ensure fees are not punitive to developers, GPRA usually recommends that fees should be no more than 50% of the lowest lift amount for a development type that analysis was prepared for. In this case, this would amount to roughly $5,500 per unit for apartments (the lift amounting to ~$11,000 per unit). This is the maximum amount we could recommend setting a CAC fee at based on the analysis to date.

Regarding the second, other municipalities surveyed have CACs that are both above and below what our financial analysis indicated the City could seek from rezonings.

Given this information GPRA recommends the City increase its CACs as follows:

- **Single Family**: $3,000 per unit in 2021; $5,500 per unit in 2022, and $8,000 per unit in 2023 and beyond.
- **Townhouse**: $2,500 per unit in 2021; $5,000 per unit in 2022, and $7,500 per unit in 2023 and beyond.
- **Strata Apartments**: $2,000 per unit in 2021; $3,500 per unit in 2022, and $5,000 per unit in 2023 and beyond.

After this point best practices recommend periodic reviews of rates on a rotating basis, similar to how jurisdictions review their DCC rates every three to five years. In the intervening period rates could be indexed at CPI every year.

With regard to the question of what the impact of a CAC is on housing pricing and who ultimately pays for it the short answer is that the sales price of a residential unit is driven by the what the market will bear, not by costs. Furthermore, CACs generally make up a relatively insignificant part of an overall cost for a project, often less than 1% of the total cost. In theory it is technically the current landowner who is selling their property to a developer will have the purchase price reflect the cost of a CAC to a developer in the land sales price.

This is not to say that sellers would receive less than market value for their property, but rather that a CAC will reduce the speculative value for a property that could be rezoned. Without CACs there is a higher likelihood that developers will pay speculative market values for land as there is no way the City

is recovering windfall value from increased development potential. With a CAC a developer is not willing to pay more for land that is supported by his projected revenues and costs.

The underlying assumption is that if developers know they will have to pay a CAC and can quantify the amount they will be expected to contribute they can make allowances for that as a cost item when determining what they can pay for a parcel of land. Our recommendation is that a municipality should not seek 100% of the lift, but rather a portion such as 50%. This allows for the flexibility for negotiation when purchasing land for rezoning and development and for the potential for sharing in this uplift in land value that arises from the rezoning with current landowners. It is also important to educate current landowners that this uplift in value is tied to the rezoning of the property, not to the value of the parcel under current zoning – that value should only be what is supported through development permissible under the current zoning on the property.

Appendix A – Commonly Asked Questions & Answers

1. Is the purchaser ultimately the one that pays the costs of a CAC?

   A: In short, no. The sales price of a residential unit is driven by the what the market will bear, not by costs. Technically, the land owner who is selling their property to a developer will have the purchase price reflect the cost of a CAC to a developer in the land sales price. Without CACs there is a higher likelihood that developers will pay speculative market values for land as there is no way the City is recovering windfall value from increased development potential. With a CAC a developer is not willing to pay more for land that is supported by his projected revenues and costs.

2. How do you evaluate the change in value between existing value under current zoning and change to high density?

   A: GPRA employs a residual calculation using a proforma analysis where the unsolved variable is land. As there are no guarantees for rezoning, a developer should only pay based value generally under current zoning. The change in value is the difference between what someone should pay for the land under current development entitlements conveyed by the existing zoning versus the value that someone should pay for the land were the proposed new zoning already be in place.

3. What is land lift?

   A: the difference in the value of land after rezoning compared to value before rezoning.

4. Would density bonusing mean a change to the zoning bylaw?

   A: Yes, but this would be a separate analysis from the current CAC study.

5. Is land lift the developer's profit?

   A: No, this is separate from the developer's profit margin which is generally 15% for a strata apartment building or townhouse development.

6. What would prevent flipping of a property at third reading?

   A: consider tying the amenity contribution to third reading.

7. Are CACs fair? Who should get the value of the rezoning – the speculator, developer, city, buyer, community, land owner, or do we all share in the gained value?

   A: The land owner is entitled the value of their land under current zoning. CACs are only collected when a property is rezoned. If the current land owner undertakes the costs and risks associated with rezoning their property they would be entitled to a share of this lift in value that is conveyed through the rezoning. Generally the lift is shared between the developer who is

seeking the rezoning and the municipality acting on behalf of their constituents. Often a portion of the developer's share ends up going to the current property owner as well.

8. There is concern that the development industry will not be supportive of an increase, and that this is not the right direction for the City.

   A: A Nanaimo CAC policy would level the playing field and allow Nanaimo to adopt similar development parameters to most other Metro municipalities. A key factor is consulting with the development community and allowing them sufficient time to adapt to the new policy. One can also point to how most other Metro Vancouver communities have already adopted some sort of CAC policy.

9. Can Nanaimo be more pro-active with CACs since developers are aware of CACs in general?

   A: Be proactive and engage the development community early on. Ensuring developers know what CACs are going to be spent on will help as it can be included in the marketing of their projects.

10. How will UDI respond?

    A: To some degree this may depend on where the funds are allocated; however, these amenities also add value to projects and neighbourhoods. See above for further thoughts on UDI.

11. Were commercial and industrial uses considered for CACs?

    A: Yes – however, most of Nanaimo's commercial and industrial lands are pre-zoned. There are exceptions, and amenities have been negotiated on large projects. Typically in other jurisdictions CACs have not been applied to industrial and commercial uses as Councils are often concerned about the impact on business. There would be no harm in continuing to apply current or indexed rates to these uses and using negotiation on larger projects.

12. What impact do CACs have on housing?

    A: Sales prices are determined by the market; however, CAC funds can be used for housing initiatives such as not for profit partnerships, land purchases, housing reserve fund, etc. Furthermore, CACs generally make up a relatively insignificant part of an overall cost for a project, often less than 1% of the cost.