
Land Value Capture Options for New TransLink Revenues: Discussion Paper

November 2021

Prepared for:

TransLink

And

The Mayors' Council on Regional Transportation



Table of Contents

Summary	1
1.0 Introduction	3
1.1 Background and Purpose.....	3
1.2 Professional Disclaimer.....	4
2.0 Land Value Capture: Overview	5
3.0 Revise the Regional Transportation DCC	6
3.1 Preliminary Assessment of Alternatives: Assumptions	6
3.2 Base Case (Inflationary Adjustments Only)	7
3.3 Increase in the Uniform Regional Rates	7
3.4 Tiered DCC Rate	8
3.4.1 Tier Structure for Preliminary Assessment	8
3.4.2 Ability to Absorb an Increased DCC	11
3.4.3 Revenue Estimate.....	12
3.4.4 Sensitivity to Boundary Change.....	12
3.4.5 Impact on Housing Affordability	13
4.0 Benefitting Area Tax (BAT)	14
4.1 Rationale	14
4.2 Setting Boundaries.....	15
4.3 Revenue Scenarios	16
4.4 Impact on Housing Affordability.....	18
5.0 Property Transfer Tax	19
5.1 Revenue Scenarios	19
5.1.1 Share of Existing PTT Revenues.....	20
5.1.2 Revisions to the Structure of PTT	20
5.2 Pros and Cons	20
5.3 Impact on Housing Affordability.....	21
6.0 Capture a Share of Increases in Land Value that Result from Changes to Zoning	22
6.1 Allocating Zoning-Based Public Benefits to Transit Investment	23

6.2	Revenue Potential	23
6.3	Impacts	24
6.4	Implementation	24
7.0	Conclusions	25
Attachment 1: Making the Case for CACs and Density Bonusing		1
A. 1	Introduction.....	1
A. 2	Land Value Capture, Rezoning, and Transit Investment.....	3
A. 3	Zoning-Based Land Value Capture In BC	4
	Density Bonusing	4
	Negotiated Community Amenity Contributions (CACs).....	5
	Phased Development Agreements	5
A. 4	Perspectives on Zoning-Based Land Value Capture.....	6
	Urban Development Institute (UDI).....	6
	“Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability”, Province of BC Ministry of Community, Sport and Cultural Development, March 2014	7
	“Development Approvals Process Review: Final Report from a Province-Wide Stakeholder Consultation”, Province of BC Ministry of Municipal Affairs and Housing, September 2019	7
	“Opening doors: unlocking housing supply for affordability. Final report of the Canada-British Columbia Panel on the Future of Housing Supply and Affordability”, June 2021	8
	“The Economics of Community Amenity Contributions and Real Estate Taxes”, Tom Davidoff and Tsur Somerville, 12 May 2021.....	8
A. 5	Addressing the Concerns.....	9
	Housing Affordability	9
	Process Delays	11
	Predictability	11
	Transparency	12
A. 6	Improving the System.....	12
A. 7	Conclusions	13

Summary

TransLink and the Mayors' Council are exploring new sources of revenue to fund transportation capital and operating costs. One kind of revenue source being examined is called Land Value Capture (LVC). LVC mechanisms are based on the premise that investments in public infrastructure increase the value of land, so it is reasonable to capture some of this increase to fund the infrastructure. Mechanisms of this sort are already used by local governments in BC and in many other jurisdictions.

In 2019, TransLink selected a regional transportation Development Cost Charge (DCC) as its first new LVC revenue source. This DCC collects one-time fees at the construction stage from new urban development throughout the region to help pay for new transportation infrastructure including transit.

TransLink is now examining other possible sources of LVC revenue. TransLink asked the team of Wollenberg Munro Consulting Inc. and Coriolis Consulting Corp. to summarize and update previous work on four specific approaches:

1. Revise the existing TransLink DCC framework.
2. Initiate a Benefitting Area Tax (BAT), which is an additional property tax in locations that benefit directly from transit service. TransLink is empowered to levy a BAT under existing legislation but has never done so.
3. Seek a share of the Property Transfer Tax (PTT) that is generated within Metro Vancouver, on the premise that transit increases property value and thereby increases PTT revenues.
4. Obtain a share of the public benefits that local governments obtain from Density Bonusing and negotiated Community Amenity Contributions (CACs) at rezoning.

The following table compares the four potential revenue sources using three criteria:

- Ease of implementation in the short term.
- Applicability to capital or operating costs.
- Potential revenue.

Revenue Source	Implementation Path if Mayors' Council Decides to Proceed	Capital or Operating?	10-Year Incremental Revenue Estimate
Tiered DCC	Existing legislation	Capital	\$100 million incremental revenue with small increase in higher tier DCC area
BAT	Existing legislation	Both	\$250+ million with less than 1% increase in total property tax in transit-intensive benefitting area ¹
PTT Sharing	Provincial approval	Both	\$250 million if TransLink receives 2% of PTT paid in Metro Vancouver
CAC and Density Bonus Benefits Sharing	Negotiation with municipalities Provincial support	Capital	\$250 million from small share of total public benefits generated in Metro Vancouver

A BAT and a revised DCC have the important advantage of being already allowed under TransLink's legislation. The CAC/Density Bonus sharing and PTT options will require extensive multi-party negotiation and possibly new legislation.

A BAT and PTT sharing have the advantage that revenue from these sources can be applied to operating or capital cost.

Given the potential revenue, all four approaches could be considered for additional analysis, stakeholder engagement, and consideration for inclusion in future plans for transit funding.

If the Mayors' Council and TransLink's priority is to create new revenue streams in the short term, the BAT (or a region-wide property tax increase) and tiered DCC are the best options because existing Provincial legislation already allows TransLink to use these mechanisms, which makes it possible to implement them more quickly than the other options. A BAT (or region-wide property tax increase) and a Tiered DCC should be considered together because of their combined ability to generate funding for operating and capital costs. However, a tiered DCC could not likely come into effect before 2024 and the proceeds can only be used for capital costs, so a BAT (or alternatively a region-wide property tax increase) are the best LVC options for addressing the funding gap in 2022 and 2023.

When the immediate funding gap has been addressed, TransLink should create a longer term LVC strategy that sets out which of the approaches TransLink will try to incorporate into future investment plans.

1.0 Introduction

1.1 Background and Purpose

TransLink needs new or expanded revenue sources to help fund the capital and operating costs of the regional transportation system. Ridership declines due to COVID-19 and reduced fuel sales tax revenues due to a rising share of electric vehicles in the region have created a significant funding gap. In addition, there are significant advantages to diversifying the revenue base beyond the traditional mainstays of transit fares, fuel sales tax, and property taxes.

One potential revenue source TransLink and the Mayors' Council are exploring further is called Land Value Capture (LVC). There are a many LVC mechanisms, all based on the premise that investments in public infrastructure increase the value of land so it is reasonable to capture some of this increase to fund the infrastructure. Mechanisms of this sort are already used by local governments in BC and in many other jurisdictions.

In 2019, TransLink selected a regional transportation Development Cost Charge (DCC) as its first new LVC revenue source. This DCC collects one-time fees at the construction stage from new urban development throughout the region to help pay for new transportation infrastructure including transit.

In 2020, TransLink commissioned a comprehensive analysis of possible additional LVC mechanisms.¹ The COVID-19 pandemic interrupted TransLink's consideration of LVC options.² TransLink is now returning to the task and, to help with financial planning and to help engage stakeholders in the funding conversation, TransLink asked the team of Wollenberg Munro Consulting Inc. and Coriolis Consulting Corp. to summarize and update previous work on four specific forms of potential LVC:

1. Revise the existing TransLink DCC framework.
2. Initiate a Benefitting Area Tax (BAT), which is an additional property tax in locations that benefit directly from transit service. TransLink can levy a BAT under existing legislation but has never done so.
3. Seek a share of the Property Transfer Tax (PTT) that is generated within Metro Vancouver, on the premise that improved transit can increase property value and thereby increase PTT revenues.
4. Obtain a share of the public benefits that municipalities obtain from Density Bonusing and negotiated Community Amenity Contributions (CACs).³

¹ Coriolis Consulting Corp. and Wollenberg Munro Consulting Inc., "Evaluation of Land Value Capture and Urban Development as Sources of Revenue for TransLink", February 2020.

² The 2020 LVC (Coriolis and Wollenberg Munro) report for TransLink also examined potential for TransLink to generate revenue from strategic land acquisition and urban development. These mechanisms are not included in this discussion paper.

³ In 2021, the Mayors' Council approved a Policy Framework for Major Transit Project Contributions from Municipal and Local Partners. This Framework may require a financial contribution from a municipality if part of the transit project goes beyond the regional scope of the project (e.g. an additional station). In that case, the municipality may use one of its own LVC mechanisms to help pay for its portion of cost. This kind of contribution is not considered in this paper, which examines a broader use of CAC and Density Bonus mechanisms to make a direct contribution to transit capital costs.

This discussion paper is intended to be concise and pragmatic. More detail about the LVC approaches considered in this paper can be found in our 2020 report.

Conversations about using land value capture to fund transit inevitably become entwined with the issues of housing supply and affordability, because some LVC mechanisms (such as DCCs or Density Bonusing) affect the economics of new residential development and some (such as property tax) affect the ongoing cost of occupying a home. This discussion paper focuses on revenue for transit, but it also aims to show how funding transit and supporting housing affordability do not have to be at odds.

This paper draws on the authors' decades of experience dealing with housing affordability, development economics, rezoning policy and rezoning applications, DCCs, Density Bonusing, and CACs on behalf of local governments, developers, the Province of BC, and organizations such as UDI, Metro Vancouver, BC Housing, and the BC Non-Profit Housing Association. The opinions expressed in this paper are the authors' and are not necessarily TransLink's.

1.2 Professional Disclaimer

This document may contain estimates and forecasts of future growth and urban development prospects, estimates of the financial performance of possible future urban development projects, opinions regarding the likelihood of approval of development projects, and recommendations regarding development strategy or municipal policy. All such estimates, forecasts, opinions, and recommendations are based in part on forecasts and assumptions regarding population change, economic growth, policy, market conditions, development costs and other variables. The assumptions, estimates, forecasts, opinions, and recommendations are based on interpreting past trends, gauging current conditions, and making judgments about the future. As with all judgments concerning future trends and events, however, there is uncertainty and risk that conditions change or unanticipated circumstances occur such that actual events turn out differently than as anticipated in this document, which is intended to be used as a reasonable indicator of potential outcomes rather than as a precise prediction of future events.

Nothing contained in this report, express or implied, shall confer rights or remedies upon, or create any contractual relationship with, or cause of action in favor of, any third party relying upon this document.

In no event shall Wollenberg Munro Consulting Inc. and/or Coriolis Consulting Corp. be liable to TransLink or any third party for any indirect, incidental, special, or consequential damages whatsoever, including lost revenues or profits.

2.0 Land Value Capture: Overview

Land Value Capture (LVC) aims to harness some of the value of land to achieve public benefits such as infrastructure, community facilities, or affordable housing. “Land Value Capture” is not a household phrase, but almost everyone is familiar with one widely used form of LVC: property tax, which in BC is based on the market value of property rather than on the property’s use of public services.

Some common LVC methods are triggered by a specific event:

- Tax on the sale of property. In BC, this is called the Property Transfer Tax.
- Capital gains tax on the increase in property value (other than principal residences) when property is sold.
- Fees charged on new urban projects at the time of development. In BC, development charges pay for some kinds of basic infrastructure such as water, sewer, and roads. These one-time fees are based on cost recovery, but they end up capturing some of the value of development sites.
- Public benefits collected in exchange for increased density at the time of rezoning. In BC, these LVC approaches include Density Bonus zoning and obtaining Community Amenity Contributions.

Other LVC methods are recurring, usually paid annually by property owners:

- Property tax. In BC, property tax is based on 100% of the market value of land and improvements.
- Property tax surcharges on specific types of property. In BC, Additional School Tax is levied on properties assessed at values of more than \$3 million.
- Special taxes or fees. In some housing markets in BC there is an annual Provincial Speculation and Vacancy tax based on assessed value and levied on residential property not used as a principal residence and not rented.

While the phrase “land value capture” may sound to some like a confiscation of private wealth, there is sound rationale for using LVC as a means of raising revenue for public purposes:

- The value of urban land is influenced heavily by how it can be used (i.e. its zoning), its access to urban infrastructure, and its physical characteristics.
- Public actions such as rezoning, providing infrastructure and public institutions, and creating the community context in which development occurs often have significant upward influences on the value of land.
- Therefore, as the principal provider of public infrastructure and amenities, the public sector should enjoy some of the benefit of resulting increases in land value rather than all of the benefit taking the form of increased land value accruing to the owners of private land.

Land value capture distinguishes between **land value** and **total property value**. Land owners can increase the value of their property by investing in improvements but they have little direct influence on the value of their land other than to correct physical deficiencies (by removing contaminants for example). Most of the gains in urban land value come from changes in zoning, public investments in infrastructure, and market escalation.

3.0 Revise the Regional Transportation DCC

The legislation allowing the regional transportation Development Cost Charge (DCC) was passed in 2018. During 2019, TransLink finalized the structure of the DCC framework and set the DCC rates in consultation with local governments and the development industry. Collections began in 2020. The legislation requires that the DCC revenues can only be applied to capital expenditures.

The DCC framework included a pre-set increase in the DCC rates for 2021⁴ and annual inflationary increases thereafter.⁵

As with most DCCs, there are different rates for different land uses.

These rates are currently constant for each use across the entire region (i.e. the rate for a new apartment unit is the same in all locations). During the three years that the system was being designed, stakeholders had differing views about whether these rates should be uniform across the region or should vary in accordance with a metric such as intensity of transit service or level of new transit capital investment. After considerable discussion, TransLink took the position that the benefits of regional transportation infrastructure are broadly distributed and do not correlate directly with where capital investments are made, so the DCC rates should be uniform throughout the region. However, the legislation allows the possibility that DCC rates for each land use could vary across the region.

We have been asked to provide a preliminary assessment of three possible scenarios for the future of the regional transportation DCC:

- A base case which assumes the current system remains in place, with only inflationary adjustments going forward.
- The possibility of an additional increase (beyond inflation) in the uniform regional DCC rates.
- The possibility of creating two (or more) DCC rate zones or tiers in the region.

The intent of this preliminary work is simply to see if there is enough potential new revenue to warrant launching a much more detailed analysis and stakeholder engagement process.

3.1 Preliminary Assessment of Alternatives: Assumptions

1. Inflationary changes in the DCC will be ongoing and are assumed to be 0.6% per year in 2022 (as already approved by TransLink's Board) and an average of 1.6% per year for 2023 onwards.⁶
2. Only the DCC for apartments is examined in this preliminary assessment, as an indicator of the potential for increased revenue. Apartments account for a very large share of total DCC revenues. In a more detailed analysis, all forms of housing and all land uses will have to be analyzed.
3. Total apartment development in the region is assumed to average about 15,000 units per year over the ten-year forecast period. However, about 20% of new apartment units are assumed to *not* pay the DCC,

⁴ This pre-set increase was deliberate so that the new DCC would be phased in. For example, the apartment rate was set at \$1,200 per unit for 2020 with an automatic increase to \$1,545 in 2021.

⁵ One of TransLink's regulations allows it to increase the DCC rates by the rate of inflation (based on Vancouver CPI) for up to four years after a DCC bylaw is adopted without going back to the Inspector of Municipalities for approval.

⁶ 1.6% matches the average annual rate of inflation over the past ten years in the Vancouver CPI, All Items, Not Seasonally Adjusted, based on Statistics Canada data.

reflecting that TransLink waives the DCC on eligible not-for-profit affordable rental housing and reduces the DCC on eligible not-for-profit student housing. So, the DCC is assumed to apply to about 12,000⁷ new apartment units per year.

4. An additional rate increase (beyond inflation) would commence in 2024 at the earliest. This allows time for detailed analysis to set the boundary and the rate for the higher tier area plus the required advance notice that allows the development industry to adjust.
5. All recent or proposed increases in existing municipal and Metro Vancouver DCCs are assumed to be in force, including the regional water infrastructure DCC.

3.2 Base Case (Inflationary Adjustments Only)

Table 1 shows the forecast of DCC revenues from *apartment* development under the existing system (uniform rates throughout the region with only inflationary adjustments going forward) for the ten-year period from 2022 to 2031. Actual *total* TransLink DCC collections in 2020 were about \$20 million⁸; data for apartments only is not available.

Table 1: Apartment DCC Revenue Forecast (Base Case - Inflation Adjustments Only)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Forecast Sum Years 1-10
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-2031
Apartment DCC Rate	\$1,554	\$1,579	\$1,604	\$1,630	\$1,656	\$1,682	\$1,709	\$1,736	\$1,764	\$1,792	n/a
# Units that Pay	12000	12000	12000	12000	12000	12000	12000	12000	12000	12000	n/a
Revenue Forecast (\$M)	\$18.6	\$18.9	\$19.2	\$19.6	\$19.9	\$20.2	\$20.5	\$20.8	\$21.2	\$21.5	\$200.5

3.3 Increase in the Uniform Regional Rates

A key objective when increasing DCC rates is that the extra cost should have no material impact on the financial viability of redevelopment projects under existing zoning or on the pace of new residential development. The larger DCC should not materially reduce the ability of developers to pay enough for development sites, because a widespread reduction in the pool of available development sites can lead to market-wide increases in residential unit prices.

We created financial models to test about 20 apartment redevelopment scenarios in different locations in the region. These scenarios include development sites in a variety of housing markets, and they include a range of assumptions about the existing use of land (e.g. assembling single detached lots or redeveloping low density commercial land) and about redevelopment density (low-rise, mid-rise, high-rise) and construction type (wood frame, concrete).

Our analysis using these financial models shows two broad outcomes:

- Some redevelopment scenarios show that there is financial “room” for increased DCCs, in some cases as high as \$20,000 per apartment unit. Contrary to what might be expected, these are not all in the

⁷ This forecast is higher than the forecast used in the 2018 technical reports prepared for the introduction of the regional transportation DCC. The forecast has been updated to reflect newer population forecasts and recent apartment development trends.

⁸ The 2018 to 2027 10-Year Investment Plan forecasts total DCC revenue at about \$30 million (from all types of development) per year.

highest value housing markets in the region. They tend to be in places where there is good transit and allowable density is high.

- Some scenarios show little or no room for increased DCCs. These tend to be in locations where allowable density is lower (e.g. low-rise) or where existing land uses support a high value.

Significant variation occurs within municipalities, often depending on whether redevelopment requires assembling single detached lots or converting low density commercial land. There has been a significant increase in the market value of single detached homes in suburban locations over the last two years and this has made assembly and redevelopment financially challenging.

This preliminary assessment shows that there are parts of the region that cannot absorb any significant new development costs at this time (after accounting for recent or proposed increases in municipal DCCs and regional water and sewer DCCs) without risking negative impacts on the housing market.

We do not recommend increasing the region-wide uniform rate at this time. If there is a desire to increase DCC revenues under the existing DCC framework in the short term, the only option would be to expand the application of the DCC to uses that are not currently included such as secondary suites. This would have to be examined with regard to impact on housing affordability and would require regional consultation as secondary suites are exempt from the regional sewer DCC.

3.4 Tiered DCC Rate

A difference in DCC rates must reflect a real difference in benefit. DCC legislation does not allow setting DCC rates based only on the ability to pay, and the rate is meant to be the same for uses with similar benefits or that impose similar costs.

One possible basis for a tiered DCC system is the level of intensity of transit service. This could be measured in a very fine-grained way (e.g. distance from rapid transit station, distance from a frequent bus corridor) but this inevitably will lead to challenges with boundary-setting and create the risk that development skips to just outside the boundary. A more practical approach is to simply divide the whole region into large subareas with different degrees of transit service. For example, there could be three zones (e.g. with 0, 1, or 2+ rapid transit lines) or there could be two zones (with or without rapid transit).

3.4.1 Tier Structure for Preliminary Assessment

This preliminary assessment is based on a two-tier system that is similar to the approach tested in our 2020 report⁹, but with a modification to reflect the revised rapid transit routing in Surrey and Langley (which is subject to confirmation by the Province of its share of funding and TransLink and Mayors' Council confirmation of the project being included in the next 10-Year Investment Plan).

Figure 1 shows one possible division of the region into a lower tier and higher tier DCC rate structure based on transit intensity. The yellow shaded portions of the region represent the higher intensity transit service area. This map is almost certainly not "right" in the sense of accurately mapping in fine detail the difference between levels of transit service. However, it is a rough approximation based on the premise that areas

⁹ Our 2020 report recommended not introducing a tiered system in the short term because the DCC was just introduced in 2020 and there had been debate about uniform vs. tiered rates. However, TransLink directed us to consider this option to address its significant funding gap based on direction from the Mayors' Council.

connected to rapid transit that already exists or that is underway have (or will have) a higher level of transit service.

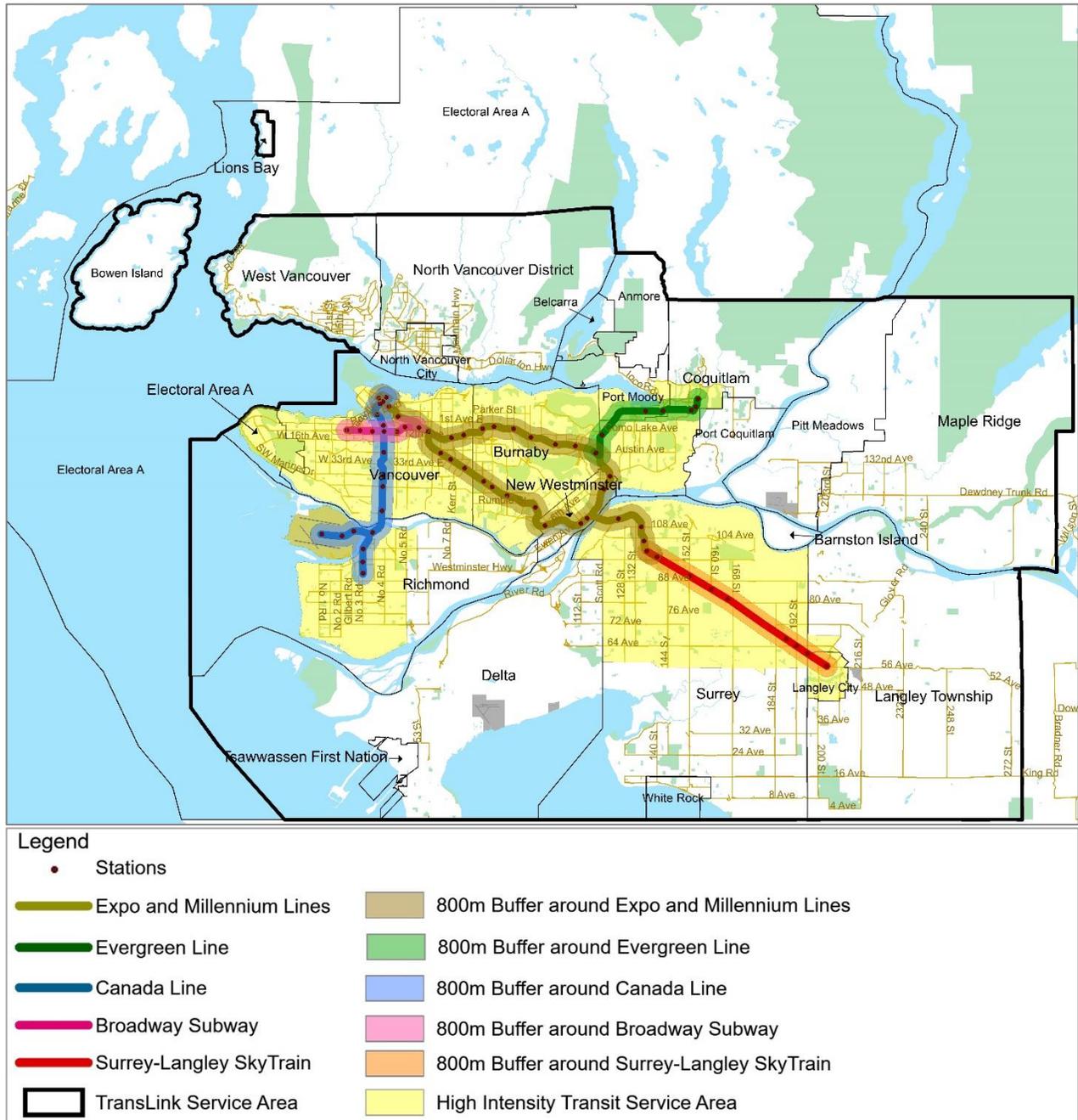
The higher intensity transit service sub-area includes:

- Vancouver (Expo, Millennium, and Canada Lines).
- Burnaby (Expo and Millennium Lines).
- New Westminster (Expo and Millennium Lines).
- The most urbanized parts of Port Moody and Coquitlam (Evergreen Line).
- North Surrey (Expo Line and Surrey-Langley SkyTrain).
- City of Langley (Surrey-Langley SkyTrain).
- Willowbrook area in the Township of Langley (Surrey-Langley SkyTrain).
- Western part of Richmond (Canada Line).

A more detailed analysis of a tiered DCC could include examination of other ways to divide the region into subareas, such as:

- Including areas served with other forms of transit such as SeaBus, West Coast Express, or RapidBus.
- Dividing the region into more than two subareas (with different DCC rates) based on a more detailed assessment of intensity of transit service.

Figure 1: Sub-Area Boundaries for Preliminary Assessment of a Tiered DCC Rate Structure



Source: Coriolis Consulting Corp.

3.4.2 Ability to Absorb an Increased DCC

Based on financial analysis of case study examples, the answer to the question “Do redevelopment projects inside the higher density transit service area have a greater ability to absorb an increased DCC?” is mixed (see Table 2). Almost all of the cases that can absorb an increased DCC are inside the higher intensity transit service area, but there are also redevelopment scenarios inside the high intensity area that cannot absorb a material increase. These tend to be locations where apartment unit prices are relatively low or where redevelopment requires assembly of single detached lots.

Consequently, if all communities served with rapid transit (existing or underway) are in the higher intensity transit service area, we estimate that an additional DCC of about \$1,000 per strata apartment unit is the current limit, without risking negative widespread impacts on the pace of new development.¹⁰ There would be more financial “room” for a DCC increase on strata apartment development if the higher rate is only applied in high density projects in selected portions of the region, but it would be difficult to justify the increase based on differences in transit service. Rental apartments do not have the same ability to absorb additional DCCs.

Table 2: Summary of Case Study Financial Analysis of a Tiered Two-Zone DCC System (Sept 2021)

Municipality	Neighbourhood	Existing Use	Assumed Redevelopment Scenario	Assumed Density (FSR)	Construction Material	Estimated "Financial Room" for increased DCC (\$ per apartment unit)
Lower Intensity Transit Service Area						
Maple Ridge	Town Centre	Assembly of single family houses	Low-rise apartment	1.90	Woodframe	none
Maple Ridge	Town Centre	Assembly of single family houses	Mid-rise apartment	2.50	Woodframe	none
North Vancouver City	Central Lonsdale	Older commercial	High-rise mixed-use*	2.80	Concrete	\$5,800
North Vancouver District	Lynn Creek	Assembly of single family houses	Mid-rise apartment	2.50	Woodframe	none
Port Coquitlam	Downtown	Assembly of single family houses	Low-rise apartment	2.00	Woodframe	none
White Rock	White Rock	Older commercial	High-rise mixed-use*	4.00	Concrete	\$5,400
Higher Intensity Transit Service Area						
Burnaby	Brentwood	Older warehouse	High-rise apartment	7.32	Concrete	\$77,700
Coquitlam	Burquitlam	Older rental apartment	High-rise apartment	4.00	Concrete	\$17,300
Langley City	200th St Corridor	Assembly of single family houses	Low-rise apartment	1.65	Woodframe	none
Langley City	201st St Corridor	Assembly of single family houses	Low-rise apartment	2.10	Woodframe	none
Langley City	Town Centre	Older commercial	Mid-rise mixed-use*	3.40	Concrete	\$6,500
Richmond	Downtown	Older commercial	High-rise mixed-use*	3.40	Concrete	\$20,000
Surrey	Fleetwood	Older commercial	Low-rise mixed-use*	2.20	Woodframe	\$23,300
Surrey	City Centre	Assembly of single family houses	Mid-rise apartment	2.50	Woodframe	none
Surrey	Fleetwood	Older commercial	High-rise mixed-use*	4.00	Concrete	none
Surrey	City Centre	Older commercial	High-rise apartment	4.20	Concrete	\$2,800
Surrey	City Centre	Older commercial	High-rise mixed-use*	6.60	Concrete	\$23,500
Vancouver	Norquay	Assembly of single family houses	Low-rise apartment	2.00	Woodframe	none
Vancouver	Cambie	Assembly of single family houses	Mid-rise apartment	2.50	Concrete	\$25,900
Vancouver	Kingsway	Older commercial	High-rise mixed-use*	3.80	Concrete	none

Source: Coriolis Consulting Corp. based on market conditions and construction costs as of September 2021.

*Note: Mixed-use includes apartments with commercial at grade.

¹⁰ There is little or no room for increasing the DCC on market rental apartment development in most of the region except for a few locations in which market rents are very high.

3.4.3 Revenue Estimate

Table 3 shows the revenue implication of a DCC increase of \$1,000 per apartment unit (in 2021\$, plus inflation) to all apartment units developed in the higher intensity transit service area starting in 2024 (i.e. years after red line in the table). The analysis assumes that about 80% of total apartment development in the region over the ten-year forecast period is in the high intensity transit service area and that 20% of new units are exempt because they are affordable rental.

This preliminary evaluation only includes apartments, as this use accounts for a large share of total DCC revenues. A more detailed analysis should include all forms of housing and all land uses in all major submarkets in the region.

Table 3: Apartment DCC Revenue Forecast (Illustrative Tiered DCC Rate System)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Forecast Sum
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Years 1-10 2022-2031
High Intensity Transit Area:											
Apartment DCC Rate	\$1,554	\$1,579	\$2,562	\$2,603	\$2,645	\$2,687	\$2,730	\$2,774	\$2,818	\$2,863	n/a
# Units that Pay	9600	9600	9600	9600	9600	9600	9600	9600	9600	9600	n/a
Revenue Forecast (\$M)	\$14.9	\$15.2	\$24.6	\$25.0	\$25.4	\$25.8	\$26.2	\$26.6	\$27.1	\$27.5	\$238.2
Rest of Region:											
Apartment DCC Rate	\$1,554	\$1,579	\$1,604	\$1,630	\$1,656	\$1,682	\$1,709	\$1,736	\$1,764	\$1,792	n/a
# Units that Pay	2400	2400	2400	2400	2400	2400	2400	2400	2400	2400	n/a
Revenue Forecast (\$M)	\$3.7	\$3.8	\$3.8	\$3.9	\$4.0	\$4.0	\$4.1	\$4.2	\$4.2	\$4.3	\$40.1
Metro Vancouver Total											
Total Revenue Forecast (\$M)	\$18.6	\$18.9	\$28.4	\$28.9	\$29.4	\$29.8	\$30.3	\$30.8	\$31.3	\$31.8	\$278.3

Comparing Table 1 and Table 3, the tiered DCC structure as modelled shows a total revenue gain of about \$78 million for apartment DCC revenues over the ten-year forecast period. Table 4 shows the difference between the two forecasts.

Table 4: Comparing DCC Revenue Forecasts under Existing System and Illustrative Tiered System

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Forecast Sum
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Years 1-10 2022-2031
Tiered Rates Revenue Forecast (\$M)	\$18.6	\$18.9	\$28.4	\$28.9	\$29.4	\$29.8	\$30.3	\$30.8	\$31.3	\$31.8	\$278.3
Existing System Revenue Forecast (\$M)	\$18.6	\$18.9	\$19.2	\$19.6	\$19.9	\$20.2	\$20.5	\$20.8	\$21.2	\$21.5	\$200.5
Difference (\$M)	\$0.0	\$0.0	\$9.2	\$9.3	\$9.5	\$9.6	\$9.8	\$10.0	\$10.1	\$10.3	\$77.8

This \$78 million dollar figure only includes new apartment development. Assuming a higher rate would apply to other uses in the transit intensive area, the total yield over 10 years would likely be approximately \$100 million (or approximately \$12 million per year commencing in 2024), but this would have to be confirmed by detailed analysis.

3.4.4 Sensitivity to Boundary Change

There is some rationale for expanding the boundary of the higher intensity transit service area beyond the boundary shown in Figure 1. For example, the City of North Vancouver has SeaBus service which could be considered more intensive transit service than regular bus service. If we assume that 85% of total apartment development in the region over the ten-year forecast period is in the high intensity transit service area (rather than 80%), then the total additional DCC revenues over the ten-year forecast period would be about \$4.9 million (i.e. \$283.2 million over 10 years compared to the \$278.3 million shown in Table 3).

3.4.5 Impact on Housing Affordability

The primary market impact of new or increased DCCs is to put downward pressure on what developers can afford to pay for development sites.¹¹ Developers compete with other potential purchasers of sites (such as investors who want to own residential or commercial income-producing property in its current form or owner-occupiers of existing residential or commercial properties). If developers cannot outbid these other potential purchasers, less land is available for new development and the pace of new housing supply slows. A significant drop in the pace of new development would lead to market-wide housing price increases if housing demand remains strong.

Therefore, any potential increase in DCC must be calibrated so that it does not lead to reduced viability of new development or reduced pace of new development. The proposed tiered DCC rate increase is small enough that it is not likely to result in material impacts on the pace of development or affordability.

¹¹ For a detailed description of the urban land economic impacts of DCCs, refer to “Regional DCC for Transit Infrastructure”, August 2018, Coriolis Consulting Corp.

4.0 Benefitting Area Tax (BAT)

Under current legislation, TransLink has the authority to levy two forms of property tax:

- TransLink can levy property tax¹² on the value of land and improvements throughout the region. The current revenue from this tax is almost \$400 million per year and it increases annually.
- TransLink also has the authority¹³ to levy a benefitting area property tax surcharge, described in legislation as the ability to “adopt different tax rates...in different zones based on the benefit...as a result of proximity to a transportation station or...major facility constructed or funded by” TransLink. The authority for TransLink to impose a Benefitting Area Tax (BAT) has existed in legislation for a long time but it has not been used.

Property tax revenues have some key advantages as a revenue source. First, they can be applied to capital or operating costs (versus DCCs which can only be used for capital costs), and they are steady and predictable year over year.

If TransLink plans to increase revenue from property tax, it has two options:

1. Increase the basic property tax on properties.¹⁴
2. Implement a BAT.

We have examined these options from four perspectives:

- Is there a sound rationale for using a BAT?
- What is a good approach to defining boundaries for a BAT?
- How much revenue is possible?
- What are the impacts of increased property tax on housing affordability?

4.1 Rationale

The existing basic property tax already reflects any higher property value that results from transit access. This is the main reason that TransLink has not used the BAT already, as it seems like it would be “double-dipping”.

¹² Section 25(2)(a) of the SCBCTA Act.

¹³ Section 25(7) of the SCBCTA Act.

¹⁴ Current legislation only allows TransLink to increase its property tax revenues by more than 3% per year if the increase is approved by the Mayors’ Council in an investment plan. Prior to 2017, the annual property tax was structured so that TransLink generally only increased its total property tax revenue by 3% over the previous year’s tax revenue (with some exceptions). This constraint was presumably imposed as a means of limiting the exposure of taxpayers to tax increases significantly above inflation. However, in any given year the assessment roll consists of the previous year’s property assessment *plus* growth that is the result of new improvements or changes in land value due to upzoning. Starting in 2017, TransLink adjusted its approach to calculating increased property tax revenue as follows:

- The tax revenue derived from the previous year’s assessment base can be increased up to 3%.
- In addition, TransLink applies its tax rate to “new” assessment base created by new improvements or changes in property value due to rezoning.

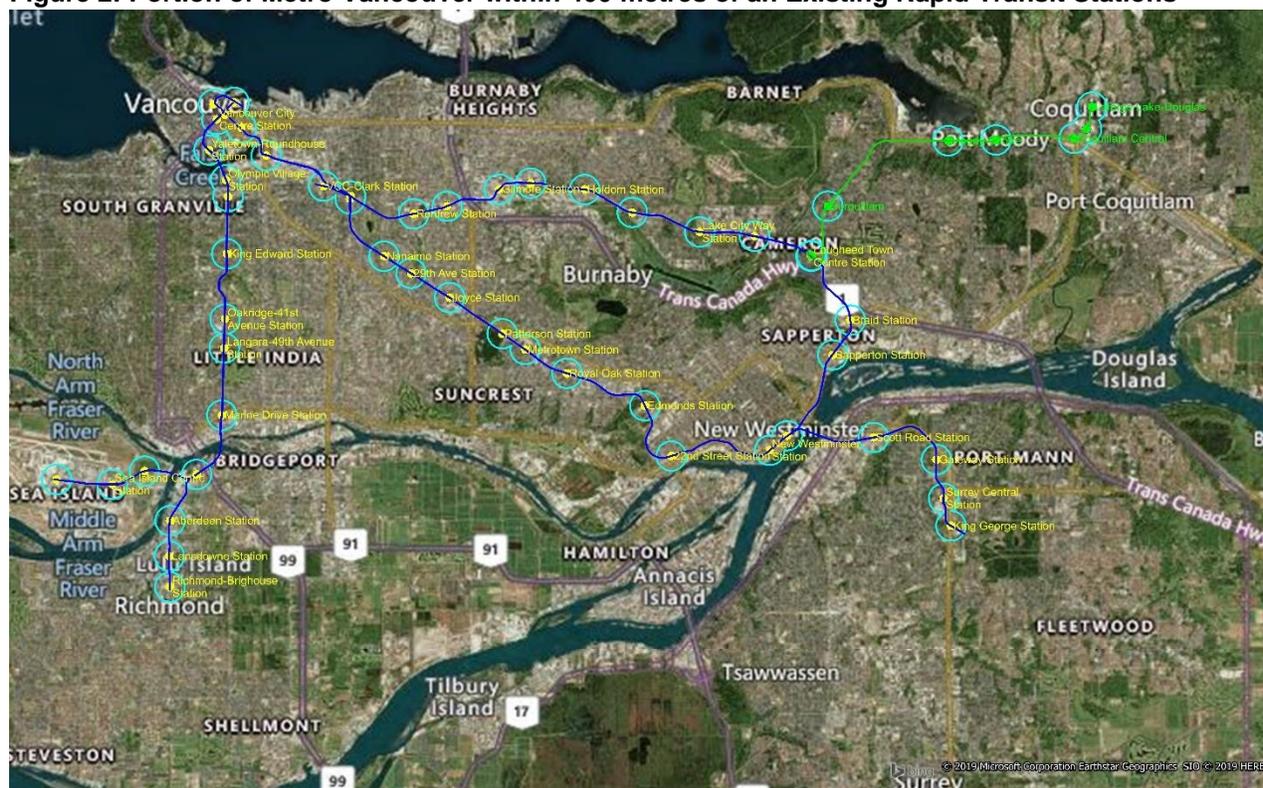
However, there are benefits from transit access that do not necessarily fully translate into higher property value, such as reduced transportation costs (e.g. avoidance of auto ownership) and time-saving. To make a case for a BAT it may be necessary to quantify these benefits to demonstrate why the BAT is fair.

4.2 Setting Boundaries

There are two broad options for BAT boundaries:

- The BAT could be confined to the relatively small geographic areas where the benefits of major transit investment are highest such as within easy walking distance of rapid transit stations (for example, the area shown in Figure 2, which shows a radius of 400 metres around existing rapid transit stations). This approach was considered in our 2020 report as an illustration of a BAT boundary.
- The BAT could be applied to the relatively large part of the region that has significantly higher intensity of transit service than the rest of the region (such as the area shown in Figure 1 in Section 3.0). This is a new approach that was not included in the 2020 work.

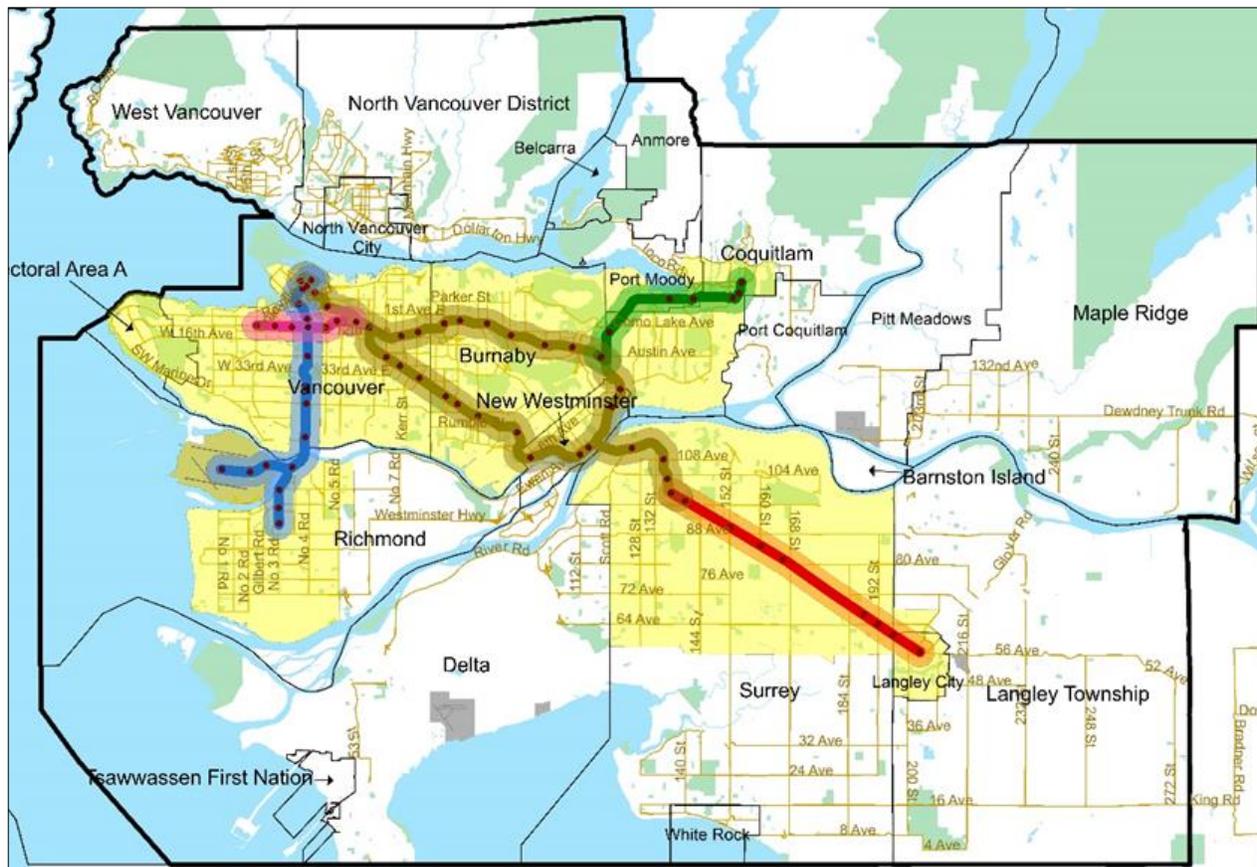
Figure 2: Portion of Metro Vancouver within 400 metres of an Existing Rapid Transit Stations



Tighter boundaries strengthen the rationale in terms of a higher degree of benefit from transit proximity that may not be captured in property values, which supports the case for a BAT. However, tighter boundaries mean a higher BAT rate is needed to generate significant revenue. Tighter boundaries will also create arguments about why properties are in or out and also create the risk that development interest shifts to just outside the boundary.

A broad boundary spreads the tax burden over more properties and has less boundary-setting challenge, but there would have to be a rationale for why the larger area enjoys special benefits that warrant a BAT. One approach is to divide the region into two large subregions based on level of transit service. The boundary of the yellow highlighted area shown in Figure 1 in Section 3.4.1 (repeated below) illustrates one option for

testing the financial impact of a BAT applied to a much broader area than the immediate vicinity of rapid transit stations.



4.3 Revenue Scenarios

Obviously, the amount of revenue depends on how the new tax rates are set. Rather than pick an arbitrary tax rate, we have examined tax implications by starting with a target revenue. TransLink often uses a threshold of \$25 million per year as the minimum a new revenue source should be able to generate. Using this threshold, Table 5 shows three scenarios (using 2019 assessment data):

- \$25 million or \$50 million per year from a region-wide property tax increase.
- \$25 million or \$50 million from a BAT applied to the large higher intensity transit-served area (yellow highlighted area in Figure 1),
- \$25 million or \$50 million from a BAT applied to areas within 400 metres¹⁵ of a rapid transit station (shown as circles along existing rapid transit lines in Figure 2).

¹⁵ Another option would be to use a radius of 800 metres, which is regarded as reasonable walking distance. There are many boundary scenarios that can be tested if the BAT idea is explored in greater detail.

The timing for when a BAT comes into effect in an area should be based on when the benefit of access to rapid transit accrues to that area. All three scenarios are based on TransLink's estimate that on average TransLink's property tax is about 7% of the current total property tax bill.

Table 5: Three Estimates of Potential Additional Property Tax Revenue for TransLink

Tax Area	Total 2019 Assessed Value in Tax Area	Estimated 2021 TransLink Property Tax from this Tax Area	Target Increase in Annual Property Tax Revenue (2021\$)	Percent Increase in TransLink Property Tax Bill	Implied Percent Increase in Total Property Tax Bill Assuming TransLink is 7% of total
Metro Vancouver	\$1.3 trillion	\$400 million	\$25 million	6.3%	0.44%
			\$50 million	12.6%	0.88%
Transit Intensive Subregion BAT	\$0.9 trillion	\$280 million	\$25 million	8.9%	0.62%
			\$50 million	17.8%	1.24%
Rapid Transit Station Areas BAT (400m radius)	\$0.168 trillion	\$78 million	\$25 million	32%	2.24%
			\$50 million	64%	4.48%

The outcomes show the challenge of communicating why the TransLink tax levy is going up:

- If the BAT is applied only to the highest-benefitting areas around rapid transit stations (using a radius of 400 metres as an illustration), a \$25 million to \$50 million gain in revenue requires increases ranging from 2.2% to 4.5% in total property tax bills in these areas. These property owners will need to be convinced that, in addition to the tax they are already paying on the higher land value caused by transit, they should pay this surcharge.
- If the BAT is applied to the large transit-intensive subregion, it causes a small increase in total property tax bills (ranging from 0.6% to 1.2%). For illustrative purposes, a typical \$800,000 2-bedroom condo paying \$3,000 per year in property tax would see an increase in property tax of \$18 to \$36 per year. This is not much more than if similar total revenue was raised by increasing the property tax across the whole region (for example, an increase of around 0.44% to 0.9% in total property tax would result in an increase of \$13 to \$26 per year on the same condo).

4.4 Impact on Housing Affordability

There are two possible kinds of impacts on housing affordability from the introduction of a BAT:

- The immediate direct impact is an increased expenditure for many of the households in the BAT boundary. All homeowners in the benefitting area would pay more property tax. Renters inside the boundary already paying full market rent would not be directly affected (although their landlords would absorb higher costs). Households whose rents are controlled by the Residential Tenancy Act might see their rents increase if the RTA regulations allow rents to rise to cover the increased operating expenses. If the BAT funds transit improvements that would not otherwise occur, the BAT could be offset by reduced transportation costs for households.
- Higher property tax may have a downward effect on market housing prices, but only if the tax is high enough that the market takes it into account. For illustrative purposes, if annual property tax jumped by tens of thousands of dollars per year, housing prices would fall. However, if taxes go up by \$100 per year or less, this is too small an increase to cause a measurable impact on price.

5.0 Property Transfer Tax

In BC, the Property Transfer Tax (PTT) applies to most title transfers of real property.¹⁶ The tax is on a sliding scale: 1% on the first \$200,000 *plus* 2% on the portion between \$200,000 and \$2,000,000 *plus* 3% on the portion over \$2,000,000 *plus* (for residential property only) an additional 2% on the portion over \$3,000,000.

Only the Province has this taxing power, which raises on the order of \$2 billion per year. In 2017, Metro Vancouver estimated that this region generates over 75% of the total revenue but more recent analysis indicates this has fallen to about 67%.

Regional stakeholders such as Metro Vancouver and the Real Estate Board of Greater Vancouver have approached the Province with the proposition that some of this money should be invested in the region to aid the creation of affordable housing. Metro Vancouver has also advocated using some of the funds for infrastructure and transit.

Transit helps create the property value that is taxed by the PTT, so there is a case for reinvesting some of the revenue into transit infrastructure.

However, PTT revenue is not directly earmarked for specific capital or operating budgets (such as affordable housing) or for any regions. It is a source of general revenue for the Province and there is not a fixed formula for how the funds are used.

This section examines:

- Two scenarios for estimating potential PTT funds for TransLink.
- Pros and cons of allocating PTT funds to TransLink.
- Impact on housing affordability.

5.1 Revenue Scenarios

There are two scenarios for how PTT funding could support transit investment in Metro Vancouver:

1. The Province could agree to allocate a specific share of the current PTT total annual revenue to transit investment.
2. The Province could agree to an increase in the PTT rates to create a new revenue stream specifically for regional transportation investment.

¹⁶ BC's PTT exemptions include newly built homes below a price threshold and homes purchased by first time buyers.

5.1.1 Share of Existing PTT Revenues

Table 6 shows the implications of TransLink receiving \$25 million or \$50 million per year from existing PTT funds. To be a significant source of revenue, TransLink’s share would have to be around 2% to 4% of the PTT raised from Metro Vancouver property transactions.

Table 6: Potential TransLink Revenue from Share of Existing PTT

	\$25 million to TransLink	\$50 million to TransLink
Assumed Total PTT Revenue	\$2 billion	\$2 billion
Estimated Share Collected Within Metro Vancouver	67%	67%
Estimated PTT Revenue Collected Within Metro Vancouver	\$1.34 billion	\$1.34 billion
Illustrative TransLink Share	\$25 million	\$50 million
Implied TransLink %Share of Revenue from Metro Vancouver	1.9%	3.7%

5.1.2 Revisions to the Structure of PTT

If the Province requires that its PTT revenue stream remains intact, then generating revenue for TransLink using this mechanism would mean increasing the PTT in some or all of Metro Vancouver.

TransLink has commissioned preliminary analyses of scenarios for increased PTT:

- One option is to increase the PTT for all properties near rapid transit stations. Preliminary modelling suggests that increasing the PTT rate on all properties by one quarter to one half of a percentage point would generate on the order of \$30 million to \$60 million per year.
- A second option is to increase PTT only on commercial properties near rapid transit stations; this yields far less revenue because commercial transactions account for a small share of total property transaction value.

Other options for increasing the total PTT revenue include eliminating or reducing some of the current exemptions, but these are likely more politically challenging than small increases to an existing tax rate.

5.2 Pros and Cons

There are some strong points in favour of using PTT revenues to fund regional transit infrastructure:

- Transit contributes to the land value gains that result in ongoing PTT revenue increases.
- PTT revenues allocated to transit do not affect an existing local government revenue stream.
- PTT revenues can be applied to capital or operating costs.

There are also drawbacks to using PTT revenues to fund regional transit infrastructure:

- Because most PTT is paid by homebuyers, there will be concerns raised about impacts on affordability if there is an increase in PTT rates that apply to Metro Vancouver (see Section 5.3).
- The Province may be reluctant to set a precedent for sharing the use of this revenue tool. Other local or regional providers of infrastructure that contribute to land values (e.g. water, sewer, parks, recreation

facilities) could make arguments similar to TransLink's and it may be difficult to make a compelling rationale for why transit in this region is more deserving of this funding.

- If the Province shares the existing PTT, it will have to backfill with other sources of revenue. If the Province allows PTT to increase, it draws criticism for raising taxes.
- The Province already contributes directly to the capital cost of transit investment. Accessing the existing or revised PTT may not produce "new" money for transit if the Province then reduces the other contributions it makes.

5.3 Impact on Housing Affordability

The impact of PTT on housing affordability is difficult to gauge. The published literature on the effects of transaction taxes does not provide clear direction. There are two possible impacts to consider:

- The payment of the tax at time of transfer appears to be a direct increase in the cost of buying a home, on top of the purchase price, conveyancing, mortgage placement fees, home inspection, and so on. The PTT has a sliding scale so that these direct impacts are lower on those buying lower cost homes, who may be presumed to have lower incomes than those buying higher value homes.
- However, it is possible that one effect of the PTT is to reduce the market value of homes. Simplistically, suppose a household wants to buy an existing condo for \$700,000 based on their down payment and the mortgage they can afford. Under the existing PTT structure, they would pay \$12,000 in PTT, bringing their cost to \$712,000. They juggle their household budget and decide they can just barely make it work. Now, what if the PTT formula changes while they are house shopping, adding (say) \$5,000 to their total cost? In effect, the amount they can pay for the condo would have to drop to \$695,000.

Studies have shown that the effect on house price may not be this direct for various reasons:

- The impact of the PTT may be to shift purchasers to different markets; they buy a different unit with a lower price, or they choose a different lower-priced neighbourhood to maintain the same overall housing cost. The original \$700,000 condo unit in our example stays at the same price but is bought by someone else who made a similar shift, and so on. It becomes hard to detect a market-wide impact on price.
- Another possibility is that the PTT reduces the number of sales rather than reduce price. People wait longer to buy or sell if they have that option.
- Housing pricing is very complex, with many factors exerting upward and downward pressures on market value. In a generally rising market, a new tax may mean that prices still increase but less than they otherwise would have. It may also be that transaction taxes (like property taxes) must be relatively large to start having a noticeable impact on market price.

Perhaps most importantly, most homebuyers will perceive the tax as increasing the immediate cost of buying a home; they are not likely to have observable evidence that the amount of the tax has been offset by a decline in price. The public reaction will almost certainly be strongly negative.

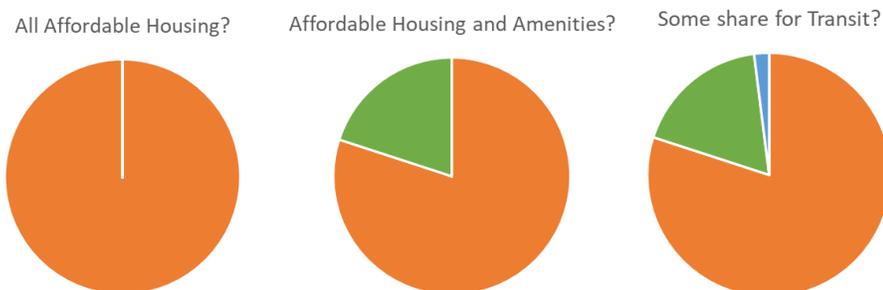
6.0 Capture a Share of Increases in Land Value that Result from Changes to Zoning

Municipalities in BC already capture a share of the increased land value from rezoning, using Density Bonusing or Community Amenity Contributions (CACs). These tools channel a share of the increased land value (created by the rezoning) into affordable housing and community facilities that serve growing populations but that are not eligible to be funded by DCCs (e.g. child care, recreation centres, library space).¹⁷ This approach provides a mechanism to supplement the amenities that can be funded by DCCs.

Transit helps create the opportunity for densification and increased land values, so it is reasonable to ask whether some of the value from transit-supported rezonings should help pay for the transit infrastructure.

There are significant challenges to address in considering this possible revenue source:

- Municipalities may be reluctant to share the public benefits that can flow from rezoning. Extensive consultation with local governments and the Province of BC will be needed to see if there is a pathway for TransLink to obtain a share.
- There may be pressure to maximize the portion of these benefits that is allocated to affordable housing, because of the urgency of the regional housing situation. A recent report commissioned by TransLink advocates using all of the benefits from Density Bonusing to create more affordable rental housing, for example,¹⁸ although that report does not address how then to pay for the community facilities that would be needed by these new residents. As illustrated by the graphic below (which is intended to be symbolic, not numerical), local governments have to decide on the allocation of benefits to affordable housing and amenities. A small share could be allocated to transit investment.



- There is some opposition to *any* continued use of Density Bonusing and CACs, whether for transit, affordable housing, or community facilities. Two reports sponsored by the Province of BC have proposed that expanded use of DCCs should replace direct land value capture tied to rezoning.¹⁹ This issue is outside the primary scope of this discussion paper, which focuses on possible TransLink revenues, but it is obviously a major challenge to local governments and it raises the question as to whether TransLink

¹⁷ DCCs can only be levied for certain specified basic community infrastructure items such as sewer, water, roads, and parks. The City of Vancouver uses DCLs which are applicable to some additional items.

¹⁸ The Keesmaat Group, "Assessing the Impacts of Potential Land Value Capture Mechanisms on Affordable Housing and Affordability (Draft)," October 2021.

¹⁹ "Development Approvals Process Review: Final Report from a Province-Wide Stakeholder Consultation", 2019 and "Opening Doors: Unlocking Housing Supply for Affordability, Final Report of the Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability", 2020.

should consider this revenue source. Attachment 1 presents the case for retaining CACs and Density Bonusing (for consideration by local governments, the Province of BC, and the development industry).

This discussion paper assumes that Density Bonusing and CACs continue in some form and that there is a willingness on the part of stakeholders to discuss a TransLink share.

6.1 Allocating Zoning-Based Public Benefits to Transit Investment

Our 2020 report demonstrated that at least two-thirds of new higher density residential development and three-quarters of high density office development in Metro Vancouver is occurring near rapid transit stations.²⁰ The report also demonstrated that transit access increases land value. So, transit investment clearly contributes to the land value growth that local governments are tapping via CACs and Density Bonusing to fund amenities, affordable housing, and infrastructure. This ought to be sufficient reason to at least consider allocating some of the benefits from transit-supported rezoning to paying for transit infrastructure.

While legislation does not explicitly dictate that public benefits achieved via rezoning be allocated only to capital costs, it is common practice for local governments to use most or all of the benefits to create assets that are needed to meet the needs of growth rather than use the benefits mainly to pay for operating costs.

6.2 Revenue Potential

We use two scenarios to illustrate the potential for transit funding.

First, in 2020 we estimated conservatively that total CAC and Density Bonusing revenues in Metro Vancouver have averaged around \$500 million per year. We also estimated that a conservative estimate of transit contribution to land value gain is 5%. These numbers produce a capital revenue stream of \$25 million per year on average.

Second, we can produce an estimate using the following assumptions about future development patterns. For this preliminary estimate, we only include apartment development, and use figures from the (updated) DCC analysis in Section 3.0 and from our 2020 report:

- Total regional apartment construction averages around 15,000 units per year,
- 80% of this occurs in the transit-intensive area as shown in Figure 1,
- 75% of this development occupies new density from rezoning (versus already-zoned capacity for new construction),
- and 65% is market housing with a land lift that supports a CAC (versus affordable housing that pays no CAC or Density Bonus contribution),
- then in rough numbers about 6,000 units per year might be candidates for contributing CACs to transit.
- If units average 800 square feet and if a modest average fixed CAC rate for new density of say \$5 per buildable square foot (this is a small share of the land value of new strata residential density) is applied only to these units for transit investment, then the revenue stream would be around \$25 million per year. This matches the previous estimate, although in a more detailed analysis this second method should include more than just apartments.

²⁰ Coriolis Consulting Corp. and Wollenberg Munro Consulting Inc., "Evaluation of Land Value Capture and Urban Development as Sources of Revenue for TransLink", February 2020.

6.3 Impacts

There are three main possible impacts of allocating a share of these benefits to funding transit investment:

- **Impacts on local government.** Transit service supports densification and helps to create local government revenues from mechanisms such as CACs and Density Bonusing. However, new development also imposes costs on local government for amenities and infrastructure. If the revenues are shared with TransLink then local governments may see this as a reduction they have to make up, either by seeking higher CAC/Density Bonus contributions or from other sources. There is clearly a need to find the right balance in allocating the land value created by rezoning to the cost of constructing regional transit and to the costs local governments face in meeting local community needs.
- **Impacts on the supply of new housing.** As long as the Density Bonus and CAC framework do not impair the rate of new development from what it otherwise would be, then the pace of new housing supply is not reduced. In fact, if some of the public benefits from Density Bonusing and CACs are allocated to the creation of new affordable housing then the pace of affordable unit construction can be increased. Attachment 1 contains more detail on how the market can respond to Density Bonusing and CACs under different circumstances. Allocating a share of these public benefits to transit does reduce the share available for affordable housing (or other amenities), but transit investment helps with affordability by reducing household transportation costs.
- **Impacts on overall housing affordability.** CACs and Density Bonusing yield public benefits that can result in the construction of affordable housing. If the CAC and Density Bonus framework are designed to not impact the pace of development, then one of the most powerful engines local governments have for creating affordable housing is to provide additional high-value strata residential density in exchange for the creation of affordable rental units.

6.4 Implementation

Tapping this revenue source for transit infrastructure is a complex challenge. There are several implementation pathways that could be considered by TransLink including:

1. Negotiate individually with all local governments that have existing or proposed major investments in transit regarding sharing the benefits from CACs and Density Bonusing. The rationale for including existing transit investments is that they will require ongoing capital upgrades.
2. Negotiate individually only with local governments that will receive major new transit investments, as a term in a Project Partnership Agreement.
3. Discuss with the Province the possibility of a flat rate CAC or Density Bonus contribution to be applied to rezonings around major transit investments.

Any of these options will be difficult, as local governments may be reluctant and the Province may not want to impose a framework. The path forward will involve extensive collaboration and negotiation.

In addition to choosing a basic approach, some of the other significant policy questions that will need to be addressed include:

- Should the TransLink share apply within an entire municipality or only in defined subareas?
- What types of development should contribute?
- What kinds of exemptions would be required?

7.0 Conclusions

All four approaches have the potential to generate significant new revenue over the next decade, but they have different strengths and weaknesses.

Table 7 compares the four approaches we were asked to consider using three criteria:

- Ease of implementation in the short term.
- Applicability to capital or operating costs.
- Amount of potential revenue.

A BAT and a revised DCC have the important advantage of being already allowed under TransLink’s legislation. The CAC/Density Bonus sharing and PTT options will require extensive multi-party negotiation and possibly new legislation.

A BAT and PTT have the advantage that they can be applied to operating or capital cost. DCCs can only be applied to capital costs and CAC/Density Bonus benefits are usually only applied to capital costs.

Table 7: Comparison of LVC Approaches

Revenue Source	Implementation Path if Mayors’ Council Decides to Proceed	Capital or Operating?	10-Year Incremental Revenue Estimate
Tiered DCC	Existing legislation	Capital	\$100 million incremental revenue with small increase in higher tier DCC area
BAT	Existing legislation	Both	\$250+ million with less than 1% increase in total property tax in transit-intensive benefitting area ²¹
PTT Sharing	Provincial approval	Both	\$250 million if TransLink receives 2% of PTT paid in Metro Vancouver
CAC and Density Bonus Benefits Sharing	Negotiation with municipalities Provincial support	Capital	\$250 million from small share of total public benefits generated in Metro Vancouver

Given the potential revenue, all four approaches could be considered for additional analysis, stakeholder engagement, and consideration for inclusion in future plans for regional transportation funding.

If the Mayors’ Council and TransLink’s priority is to create new revenue streams in the short term, the BAT (or a region-wide property tax increase) and tiered DCC are the best options because they both already exist in TransLink’s legislation and could be activated more quickly than the other options. A BAT (or region-wide property tax increase) and a tiered DCC should be considered together because of their combined ability to generate funding for operating and capital costs. However, a tiered DCC could not likely come into effect

²¹ The BAT could be compared against an across-the-board increase in the regional property tax, as this could raise a similar amount of revenue with smaller percentage increases for individual taxpayers.

before 2024 and the proceeds can only be used for capital costs, so a BAT (or alternatively a region-wide property tax increase) are the best LVC options for addressing the funding gap in 2022 and 2023.

When the immediate funding gap has been addressed, TransLink should create a longer term LVC strategy that sets out the approaches TransLink will try to incorporate into future investment plans.

Attachment 1: Making the Case for CACs and Density Bonusing

A. 1 Introduction

Local governments in BC use a range of tools to raise revenue to cover their capital and operating costs. Property taxes are the largest single source of revenue that is available to pay for providing the facilities and services that meet the needs of the entire community. When local governments approve new urban development – to accommodate new housing and new employment space – they absorb capital costs to create community infrastructure that meets the needs of the new residents and that addresses the impacts of the growth. Understandably, local governments take the view that their taxpayers should not absorb all the cost of this new infrastructure; new development should absorb some of the costs.

There are two main ways that local governments in BC obtain revenue from new development to help pay for the capital costs of growth:

- Development Cost Charges (or Development Cost Levies in Vancouver) are levied on new urban development to help pay for basic community infrastructure such as water, sewer, and park land.
- When land is rezoned to allow a change of use and/or density, new land value is created. Local governments obtain a share of this new value in the form of public benefits (often called Community Amenity Contributions) that are provided by developers in exchange for the new density. This exchange is achieved by using Density Bonus zoning or through negotiations as part of the rezoning process. This approach is used by local governments to obtain affordable housing, community amenities, and some kinds of infrastructure that cannot be funded using DCCs.

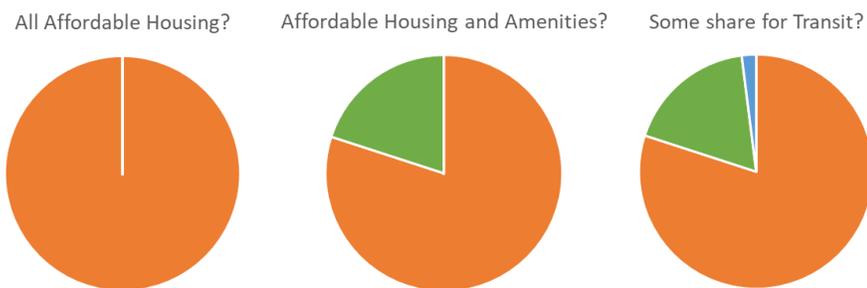
TransLink has a DCC that generates capital funds for regional transportation investment. TransLink does not currently have a means to obtain a share of the public benefits obtained from the zoning process, even though transit investment enables much of the densification in the region and contributes to the land value increases that local governments capture.

Therefore, TransLink is exploring the potential for receiving a share of the benefits that municipalities derive from the rezoning process.

There are three significant challenges to TransLink's access to this revenue source:

1. Municipalities may be reluctant to share the public benefits that can flow from rezoning, because they use these to provide affordable housing, community amenities, and infrastructure.
2. There may be pressure to maximize the portion of these benefits that is allocated to affordable housing, because of the urgency of the regional housing situation. A recent report commissioned by TransLink advocates using all of the benefits from Density Bonusing to create more affordable rental housing, for example. As illustrated by the graphic below (which is intended to be symbolic, not numerical), local

governments have to decide on the allocation of benefits to affordable housing and amenities.¹ A small share could be allocated to transit investment.



- There is some opposition to *any* continued use of Density Bonusing and CACs, whether for transit, affordable housing, or community facilities. Two recent reports sponsored by the Province of BC have proposed that expanded use of DCCs should replace direct land value capture tied to rezoning.² The reports both say that this change would increase the pace of new housing development and help address the region’s housing affordability problem.

The first two challenges described above can be addressed by engaging with local government about the possibility of sharing benefits and allocating some to transit investment. The third challenge is very different, as it raises the prospect of the *elimination* of Density Bonusing and negotiated CACs in favour of other funding mechanisms. The Province of BC, local governments, and the development industry must consider whether this change would be in their interest, particularly whether it would be a good strategy to help address housing affordability.

This Attachment takes a broad look at CACs and Density Bonusing in BC and the implications for local governments, the development industry, the Province of BC, and TransLink. The main objective of this Attachment is to suggest directions for the way forward.

This Attachment has these parts:

- Land value capture, rezoning, and transit investment:** What’s the connection?
- The basics of CACs and Density Bonusing in BC:** What are these tools and how do they work?
- Viewpoints:** What do supporters and detractors say about these tools?
- Addressing the Concerns:** Are the concerns and criticisms valid and, if so, are they inherent in the use of Density Bonusing and CACs or are they related to how they are implemented?
- Potential Improvements:** Would replacing zoning-based land value capture with expanded DCCs be better or worse for housing affordability, the development industry, and local government? Or, would adjusting CACs and Density Bonusing be more effective than eliminating them?

¹ The Keesmaat Group, “Assessing the Impacts of Potential Land Value Capture Mechanisms on Affordable Housing and Affordability (Draft)”, October 2021.

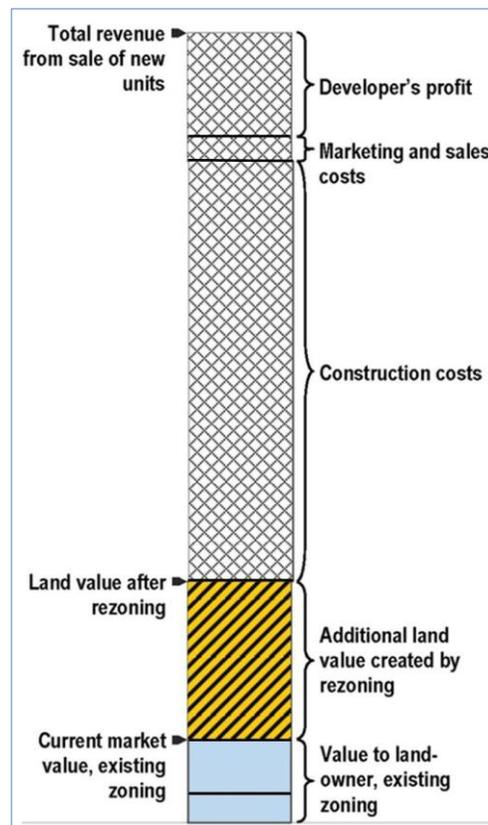
² “Development Approvals Process Review: Final Report from a Province-Wide Stakeholder Consultation”, 2019 and “Opening Doors: Unlocking Housing Supply for Affordability, Final Report of the Canada-British Columbia Expert Panel on the Future of Housing Supply and Affordability”, 2020.

A. 2 Land Value Capture, Rezoning, and Transit Investment

Land value capture linked to changes in zoning is unique: it is the only form of LVC that directly and immediately creates new land value while simultaneously capturing a share of the new value for public purposes.

The graphic opposite illustrates how rezoning affects development profits and creates new land value. The land value gain from rezoning (shown in orange) is real and this new value will end up somewhere. So, who are the candidates that could feel entitled to this newly created land value?

- The **property owner** thinking of selling to a developer might say *“There has to be an upside to make me willing to sell. If I just get ‘market value’, I will have to find a replacement property at market value and I will absorb the effort and cost of moving.”* However, although the owner needs incentive to sell, they may not require 100% of the increase in land value from rezoning.
- The **developer** buying the land might counter that *“I have the knowledge, skills, and resources to secure rezoning and I am the one paying the bills and taking the risk. I should get the increased land value from rezoning”*. However, quite aside from the increase in land value, if rezoning is successful this developer will earn extra profit by building a larger project (e.g. selling more strata residential units, each at a profit margin). Does the developer need 100% of the increased land value from the rezoning when they are also getting developers profit on the additional built product?
- The **municipality**, representing the community’s interest, could say *“We support housing development, but we absorb the costs of providing infrastructure and amenities to serve growing communities. Some of the land value created by rezoning should pay for amenities that can’t be paid for with DCCs so that our existing taxpayers don’t foot the whole bill for accommodating growth.”*



Each one of these candidates makes a good case and each has a kind of “veto” in the redevelopment process. Landowners won’t sell sites to developers unless there is an incentive; developers won’t seek rezoning unless they see sufficient compensation; and municipalities don’t have to approve a rezoning if it imposes unacceptable impacts and financial burdens on the community. All parties need to see some benefit before they will go along with the idea of increased density and redevelopment.

There is one other candidate with a strong case. Transit supports densification and it increases land value by improving accessibility. However, there is no current mechanism to channel any of the land value gains from rezoning toward paying for the public investment in transit. **Regional transit investment** can be added to the list of possible recipients of a portion of the new land value gains that arise from rezoning.

A. 3 Zoning-Based Land Value Capture In BC

In BC Development Cost Charges (DCCs) and Development Cost Levies (DCLs) are limited in the scope of what they can be used to fund. There are many important kinds of community facilities (such as fire halls or libraries) that cannot be funded by DCCs and DCLs. Also, with few exceptions, DCCs may not be used to fund affordable housing.³

Community amenities and infrastructure could all be funded by property tax, but there is a widespread view that new development should pay for some of the community infrastructure costs imposed by the growth that results from development. Faced with the pressure to pay for community infrastructure and help create more affordable housing, municipalities have looked at how zoning can yield public benefits while approving new development.

In BC, municipalities use three mechanisms to capture public benefits when rezoning land:

- Density Bonus zoning.
- Negotiated Community Amenity Contributions (CACs).
- Phased Development Agreements.

Density Bonusing

Provincial legislation⁴ allows municipalities to zone land with a base allowable density, for which no public benefit must be provided, *plus* supplemental or bonus density which can be obtained in exchange for providing a prescribed package of community facilities, affordable housing, or cash-in-lieu. Municipalities have flexibility to decide how much bonus density is available and what benefits they expect in exchange. This tool was added to Provincial legislation in 1995.

There are two main ways in which Density Bonusing is implemented in BC:

- The first way could be called “pre-zoning” in the sense that the municipality rezones areas so individual developers do not have to apply for rezoning. This approach avoids the need for site-by-site rezoning and negotiation because the zoning bylaw sets out all the main terms. Municipalities that use this approach may find that they must update the bylaw regularly if their amenity priorities change or to reflect changing market conditions.
- The second way is to adopt a Density Bonusing policy that sets out achievable density but still requires individual sites to be rezoned upon application by the developer. This allows flexibility in defining the mix of benefits for each site (amenity, affordable housing, or cash in lieu) and can make the value of public benefit commensurate with what the project can afford based on the value of the new density.

There are two schools of thought on how to determine the appropriate quantum of public benefit to seek in exchange for bonus density:

- One view is that the local government should determine the total cost of amenities needed to meet the needs of the increased population and spread the cost proportionately across expected new development. This approach is predictable and transparent, but there is a risk that this results in a cost that is too much for some developments to absorb. To reduce this risk the contribution rate must be set

³ In a few designated BC resort municipalities, DCCs can be used to fund employee housing.

⁴ Section 482 of the Local Government Act and Section 565.1 of the Vancouver Charter.

low enough so that all projects can afford to absorb the cost, which probably results in less overall public benefit.

- The other view is that the value of the public benefit from each project should be based on the value of the bonus density that each project receives. This approach ensures that the contribution is “right-sized” to be viable for each project based on its unique site characteristics, market conditions, and form of development. This also tends to optimize the total value of public benefits, as long as the process does not impede the total amount and pace of new development activity. On the other hand, this approach may increase uncertainty for developers and land owners if the required public benefits are not defined in advance and require protracted negotiation.

Negotiated Community Amenity Contributions (CACs)

Municipalities in BC sometimes negotiate on a site-by-site basis for the CACs to be provided as part of a rezoning. This practice is not explicitly authorized under Provincial legislation.⁵ However, municipal zoning decisions are at the discretion of elected Councils, who can consider whether a rezoning is in the public interest.

CAC policies and procedures vary across BC municipalities. Common approaches are:

- Negotiate site-by-site based on the site, the development concept, and the neighbourhood.
- Set “target” rates (expressed as dollars per square foot of additional density) in specific areas to eliminate the need for site-by-site negotiation.

The site-by-site negotiation of public benefits is often used in these kinds of situations:

- Zoning is changing a site’s allowable use and introducing more complex planning considerations.
- A site with special features is being rezoned. For example, a waterfront site being rezoned could trigger the expectation for a public waterfront walkway. This kind of on-site amenity cannot be achieved via a typical Density Bonus bylaw with a pre-set public benefit contribution rate.
- A large site is planned to be redeveloped with a mixed-use multi-phase project involving many factors such as extensive planning work to determine the mix and density of uses, a long time frame to develop all of the units, the need for new roads and pedestrian/cycling paths, goals for a proportion of affordable housing units, large up-front costs for infrastructure, and extensive needs for on-site amenities to meet the needs of a large increase in residents. For this a “one size fits all” approach won’t work.

Target rates are used when there are many small potential development sites and it is more efficient to set out the anticipated amenity contribution for new density than to negotiate each site individually. This approach is similar to Density Bonusing, except that the achievable additional density may not be as sharply defined (expressed perhaps as a maximum rather than the likely outcome for all sites).

Phased Development Agreements

Municipalities in BC can enter into a Phased Development Agreement (PDA) with a developer.⁶ These agreements “lock in” the new zoning, so the developer can absorb high up-front infrastructure and amenity costs with the security of knowing the zoning won’t be changed partway through the project. A PDA also

⁵ Although the use of Phased Development Agreements contemplates this sort of negotiation.

⁶ Local Government Act, Section 516.

enables a municipality to specify the inclusion of specific project features (e.g. a waterfront walkway or a cycling network), affordable housing, and the provision of specific amenities (e.g. child care or community centre) as part of a comprehensive plan.

A. 4 Perspectives on Zoning-Based Land Value Capture

While local governments by and large are supportive of these tools, judging by the extent to which they have been used to secure affordable housing and community infrastructure, there are other perspectives.

Urban Development Institute (UDI)

UDI (Pacific Region) represents the interests of developers, particularly those active in multifamily residential and commercial development in higher density urban locations.

UDI's criticisms of CACs have included:

- CACs increase the cost of development, making new housing less affordable.
- CAC negotiations slow the pace of the approvals process which increases housing prices.
- CACs are not transparent or are unpredictable, creating uncertainty for developers trying to buy land.

On the other hand, UDI also expresses understanding that local governments need to fund community amenities and infrastructure, to achieve public support for new development, or to avoid new development imposing too great a capital cost burden on existing taxpayers. For example, a UDI op-ed piece⁷ identified the need to provide incentives to low density communities to absorb new density, in the form of *"...a desired amenity, maybe a new community centre, public park or daycare centre"*. As to paying for the amenity, UDI quoted an article⁸ in a planning journal: *"Find the win-win-win where rezoning gives land owners incentives to sell their property into the development market, developers see benefits in increased density, and the local government achieves amenities that meet the needs of new residents and address community concerns without loading all of the cost onto taxpayers."* The UDI op-ed referred to this view as *"...not a social experiment but a tried-and-tested approach to housing affordability challenges. Our entire region could see a multi-family makeover with a financial incentive and a community benefit"*. This seems to acknowledge that a mechanism like a CAC – if designed and implemented properly – can help add new housing supply, yield community benefits, and be good for landowners and developers.

UDI (Pacific Region) has also supported the idea that CACs should be used to fund transit infrastructure.

⁷ "We Need Density Sweeteners for Single Family Neighbourhoods, 10 October 2017, Anne McMullin REW digital real estate industry newsletter.

⁸ Jay Wollenberg, Plan Canada, Volume 56, Number 2, 2016.

“Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability”, Province of BC Ministry of Community, Sport and Cultural Development, March 2014

The Province of BC published this guide to help local governments design CAC systems that “...*balance the opportunity to obtain public benefits...with the goal of helping families to secure affordable housing*”.

The guide acknowledges the unique nature of CACs as a means of harnessing some of the land value created by zoning to generate public benefits while cautioning about the possible impacts on housing affordability.

The guide recommends using Density Bonusing rather than negotiated CACs because Density Bonusing is explicitly allowed in the Local Government Act and can increase transparency and predictability. The guide also suggests setting targets for CACs (for predictability) provided these targets are negotiable because municipalities are not allowed to set fixed charges for density (even though most critics single out “negotiation” as causing uncertainty and delay).

The guide endorses the principles of nexus and proportionality, meaning that CACs should be commensurate with the nature and scale of impacts or needs generated by individual projects, although it also advises considering any unique features of a project or neighbourhood when seeking public benefits.

The Province of BC chose to publish this guide to influence policy and practice, rather than introduce legislation to alter or eliminate the use of CACs.

“Development Approvals Process Review: Final Report from a Province-Wide Stakeholder Consultation”, Province of BC Ministry of Municipal Affairs and Housing, September 2019

This extensive stakeholder consultation was initiated by the Province of BC to develop ideas for improving municipal approvals processes.

The report notes that DCCs can only be collected for limited purposes, which explains why local governments have come to rely on CACs for a range of neighbourhood amenities. However, the report expresses a concern that CAC frameworks can be unclear, create approval uncertainty, and add cost.

Stakeholders identified some ways to improve methods for financing community infrastructure including:

- Defining CACs in Provincial legislation.
- Replacing CACs with a “super DCC” for a wider range of public benefits.
- More reliable funding from senior governments to reduce the need for DCCs and CACs.

The report states that the Province of BC may consider possible legislative changes, but none have been introduced to date.

“Opening doors: unlocking housing supply for affordability. Final report of the Canada-British Columbia Panel on the Future of Housing Supply and Affordability”, June 2021

The Province of BC and The Government of Canada appointed a panel to recommend how to improve housing supply and affordability in BC.

The Panel notes that the supply of new housing is not growing quickly enough to improve affordability. The report identifies CACs as part of the problem:

- Rezoning takes too long and the negotiation of CACs makes the process even longer.
- CACs reduce what developers can offer for land, which reduces the flow of land to the development market, reduces the pace of housing construction, and results in upward pressure on housing prices.

The report’s recommendations address several aspects of planning and regulating urban development; those directly applicable to CACs and DCCs or DCLs include:

- Require local governments to quickly update their zoning bylaws to match their plans, rather than relying on developers to initiate rezoning. At present, municipalities use the rezoning process as a revenue-generating opportunity.
- Take steps to expedite the development of market and non-market housing around Provincially funded transit infrastructure.
- Local governments should prioritize their needs for infrastructure and amenities and specify in advance the costs that are to be recovered from charges on urban development.
- Phase out the use of CACs while expanding the use of DCCs or DCLs to cover a wider list of infrastructure and amenities directly tied to growth. The report espouses the use of nexus and proportionality to ensure that new amenity or infrastructure requirements are based only on the needs or impacts generated by new development projects.

The report focuses mainly on CACs that are negotiated at rezoning. Density Bonusing is hardly mentioned, even though it is a form of obtaining public benefits from rezoning that is explicitly allowed by legislation. Nor does the report mention Phased Development Agreements, another means of obtaining zoning-related benefits authorized by legislation.

In one of its more sweeping calls for change, the Panel states a preference *“for capturing land value using taxation methods rather than imposing charges on development...”* In our view this implies the Panel preferred that landowners should enjoy all the upside from rezoning and infrastructure investment and taxpayers should pay for the amenities and infrastructure needed to accommodate new development.

“The Economics of Community Amenity Contributions and Real Estate Taxes”, Tom Davidoff and Tsur Somerville, 12 May 2021

This is one of the expert reports commissioned by the Opening Doors panel. The authors are both professors of urban land economics at UBC. This report describes how CACs could potentially add uncertainty to the development process, which may result in less new housing construction and consequently rising housing prices.

The report notes that the impact of CACs depends on how one assumes rezonings happen in a community:

- If all rezonings would happen anyway, even with no CAC framework, all the new land value created by rezoning would flow to landowners, thereby maximizing the incentive for existing owners to sell land into the development market.
- On the other hand, if the existence of a CAC framework increases the likelihood of rezonings (that add housing density) by reducing the need for the municipality (taxpayer) to fund new community amenities and garnering community support, then the CAC framework helps open the door for increased housing capacity.

The authors espouse the goals of achieving the best outcomes for current and future residents, ensuring the provision of municipal infrastructure and amenities needed for growth, and improving housing affordability. The authors examine three different ways to achieve these aims:

- **Density auction.** The authors note that “...latent residential density is among the most valuable resources controlled by BC municipalities”; meaning capturing the value of increased density in a strong residential market can generate a lot of public benefit. A density auction could be created by defining achievable height and density in a planning area and offering the increased density to the market on a bid basis.
- **Site-specific CACs.** The authors note that this approach can create uncertainty (if developers do not know in advance what the CAC will be they may have difficulty knowing how much they can pay for land). They also note, though, that this approach means the CAC is well-matched to the value of the increase in density and to the local needs for infrastructure and amenities.
- **Fixed charges.** Broadening the scope of DCCs would introduce more transparency, be more predictable, involve less delay, and be less risky because all charges would be known in advance. If the charges end up being lower than CACs, this approach could result in more land entering the development market. However, uncoupling the charges from the value of density probably means municipalities will receive less total public benefit.

The authors do not recommend an approach; they point out that each has pros and cons.

A. 5 Addressing the Concerns

The criticisms or concerns raised in the above reports can be grouped into three main themes:

- Impacts on housing affordability.
- Delay in the rezoning process due to the negotiation of CACs.
- Lack of transparency and predictability, which causes uncertainty regarding the cost of CACs that will be required, making it hard for developers to know how much to pay for development sites.

Housing Affordability

Development charges (whether CACs or DCCs) are often singled out as making housing more expensive.

In our view, this is largely because it is so easy to manufacture a good-sounding case: *DCCs and CACs add to the cost of housing, the costs are passed on to buyers and renters, housing becomes less affordable.* This portrayal has been repeated so often that it is an automatic assumption in many conversations about affordability. But is it correct?

This section addresses three questions about the possible impacts of development charges (CACs or DCCs) on housing prices:

- Are the charges added directly to the sales prices and rents of new housing?
- If the charges fund the creation of new infrastructure and amenities which make neighbourhoods more attractive, does this increase the market value of housing?
- Do the charges impact the ability of developers to acquire development sites, such that the pace of development is slowed and, as a result, housing prices go up?

Are development charges added directly to housing price?

At first glance this seems like an obvious risk. However, it ignores how housing prices are set in the marketplace. Developers don't just add up all the costs, add a markup, and sell at the resulting figure. Prices are set by the interaction between the demand for housing and the supply of housing.⁹ Developers don't sell for less than market value (even if their costs including CACs and DCCs add up to less than market value) and they can't sell for more than the market will bear.

We are not the only ones who think this. The 2014 Provincial CAC guide, the Somerville/Davidoff Report, and the Opening Doors Report all say that housing price is set by the marketplace and that developers cannot simply add any new cost onto the price of new units (unless they are willing to see significantly slower uptake of their product). As further confirmation, analysis of new unit sales prices shows there is no difference between the price of new units that paid a CAC and the price of similar units that did not.

Can Development Charges that Fund Amenities Push Up Market Value?

This does happen. New transit infrastructure, a new community centre, a new school, better recreation facilities...all make a neighbourhood more attractive and can lead to market sales prices and rents going up because the units have become more attractive and market demand for them goes up. There is no way around this impact on market price (other than not building the amenities and infrastructure). The only solution is to create some housing that is available at less than market price for those who need it.

Do Development Charges Impact the Ability of Developers to Acquire Sites?

This is the main risk for impacting housing affordability that is inherent in all development charges, including CACs and DCCs.

For a site to be a viable redevelopment opportunity, the developer has a limit on what can be paid for the land. This limit varies across the region's diverse housing markets. This amount must be at least equal to the value supported by the existing use of the land (e.g. single detached homes or older commercial space) *plus* any incentive the owner needs to be willing to sell.

Development charges affect the outcome in two ways:

1. Charges such as DCCs directly reduce the maximum a developer can pay for a site. If the DCC is too high, then what should have been a development site will remain in its current use. Less development will occur, so supply will be constrained and housing prices will rise.
2. CACs and Density Bonusing are different. Rezoning creates new land value. A CAC captures some of this value, but the rest is available to allow the developer to pay more to the landowner. If the system is calibrated properly, the portion of the new land value available as an incentive is sufficient that enough landowners are happy to sell to developers. If the system is calibrated poorly, there is not enough

⁹ For a detailed treatment of this topic, see "CAC Policy and Housing Affordability: Review for the City of Vancouver", Wollenberg Munro Consulting Inc and Coriolis Consulting Corp, April 2019.

incentive and developers struggle to buy land. Less development will occur, so supply will be constrained, and housing prices will rise.

This is why there is a debate about the impact of CACs:

- If 100% of the new land value created by rezoning goes to landowners, then in theory the sale of land into the development market would be maximized. But how much needs to be available to landowners to ensure land flows into the market? It depends on expectations. For many landowners, 25% of the newly created value (also called “lift”) is sufficient incentive. For others, especially if they have come to believe the value gain from rezoning is all theirs, this may not be enough. It is crucial that plans for new density make it clear that rezoning is predicated on some of the new value being allocated to affordable housing, amenities, or infrastructure.
- On the other hand, what if the failure to show public benefits from rezoning means less rezoning is approved because municipalities and taxpayers don’t want to absorb the cost of community facilities to serve the growth? Less new development would happen and housing prices would rise.

There are two ways to respond to this challenge. One option is for local governments to approve rezonings without capturing any of the lift in land value through the use of development charges. This means land values go up and developers have access to the maximum possible land inventory. This may or may not increase the total amount of development activity, as there are many other factors involved. It also means that the necessary infrastructure and amenities to accommodate growth must be funded by others. The Province? Taxpayers in the community?

The other option is to seek the balance where rezonings are supported by Councils and the community, local government obtains affordable housing and amenities, landowners get enough upside to cause them to sell their land, and development projects are financially viable. This is the approach used in most Metro Vancouver municipalities. Some say this is resulting in a constraint on the pace of development, but there is no evidence that the pace of new development would be faster in the absence of Density Bonusing or CACs.

Used wisely CACs can actually improve the housing affordability situation. Strata residential land values are high in Metro Vancouver. Adding density for market strata and capturing some of this newly created value is a powerful way to create new affordable rental housing that would not be financially viable on its own.

Process Delays

We agree that the rezoning process is often too long, too complex, and too costly. Major changes in land use and density of course require comprehensive planning and community engagement, but the region needs much more housing supply so there is a need for more efficient approvals processes. In our experience it is often the resolution of height, density, design, traffic, sustainability features, engineering requirements, and other project elements that are the main source of “delay”, not the negotiation of CACs per se. If the resolution of the CAC depends on the final resolution of density, then it can appear that the CAC is the problem. It is true that the negotiation of site-specific CACs based on the value of density necessarily involves coming to terms on sales prices, construction costs, absorption period, and other variables involving opinions and estimates. This leaves room for disagreement between local government and developers, possibly resulting in delay. More use of fixed or target rates can eliminate this delay for many projects.

Predictability

If developers cannot anticipate the CAC requirement for a project, they have a difficult time knowing what to pay for development sites. Overpaying for land risks “paying twice” for density if the CAC is more than anticipated; under-offering for land (to leave enough room to pay for CACs) risks not being able to buy

development sites, with the oft-noted result that less new supply leads to upward pressure on housing prices. Clearly, developers need to be able to predict with confidence what their public benefits contributions will be.

This is especially true for relatively small, simple projects for which there are not many major planning issues to resolve. More use of fixed CAC rates increases predictability for these types of projects.

Large, complex projects necessarily involve more uncertainty about the eventual approved density and therefore public benefits. In these circumstances, uncertainty can be reduced by having predictable metrics (e.g. child care spaces per capita, recreation space per capita), using pre-set methodologies for determining the amount of public benefits, and making sure the land market understands that the new land value created by upzoning will be shared.

Transparency

There is a difference between transparency of outcomes and transparency of process.

Developers, land owners, and the public should all have access to full information about how Density Bonus or CACs have been applied to a particular project (i.e. transparency of outcomes). This fosters predictability and trust. The methods used, the numbers, the give-and-take should all be fully disclosed in advance of public hearings and Council decisions.

Transparency of process is desirable in some instances and not in others:

- If local governments are setting fixed or target rates for new density, the analysis should be fully disclosed, and stakeholders should have an opportunity to review and comment.
- When site-specific CACs are negotiated, however, some parts of the process will necessarily occur in private. This allows space for compromise, exploration of alternatives and “what ifs”, and exchange of confidential information. Full disclosure of the outcomes would increase transparency and confidence in these cases, but full public access to the negotiating process would be detrimental.

A. 6 Improving the System

There are flaws in Density Bonusing and CAC frameworks. Is it better to address these flaws, or replace the CAC and Density Bonusing frameworks with an alternate means of raising revenue for amenities and affordable housing?

What are the options?

CACs could be replaced by an expanded DCC. Ontario has done something similar to this, replacing its former negotiated benefits system with a community benefits charge (capped at 4% of total land value on all sites, whether or not rezoning is involved) and expanding the use of Development Charges which can now include capital costs of water, sewer, drainage, roads, electric power, transit, waste disposal, policing, fire protection, ambulance, libraries, long-term care, parks, recreation facilities, public health, child care, housing, bylaw enforcement, emergency preparedness, and some other special needs.

It may be a good idea to expand the use of DCCs in BC, but the question here is whether an expanded DCC should completely replace Density Bonusing and CACs. Two key points to keep in mind:

- DCCs apply to all projects, even if they do not involve rezoning that creates new land value. There is a risk that significantly higher DCCs render many already-zoned potential development sites non-viable. In Metro Vancouver there are already many potential redevelopment scenarios that cannot afford a significant increase in DCCs under existing zoning. For many potential development projects, imposing

a significantly higher DCC on the whole project will have a greater negative impact on viability than capturing a share of the new land value created by adding density.

- CACs and Density Bonusing can be “right sized”, such that the public benefits achieved are linked to the new land value created. As long as there is enough incentive for land owners to sell, CACs are less likely than increased DCCs to make redevelopment non-viable.

Another option, as suggested by the Opening Doors report, is to replace all development charges with property taxes. This spreads the cost burden of new amenities and affordable housing over the whole community while land owners keep all the land value gains from rezoning. This might in theory increase the flow of land to the development market, adding more housing supply, but not if the burden of paying for all the amenities and infrastructure falls onto taxpayers who do not see any direct benefit from rezoning.

A. 7 Conclusions

Eliminating DCCs, CACs, and Density Bonusing – and replacing them all with increased property tax – is not likely to be acceptable to most local governments and their residents. How would Councils possibly make the case to their constituents that they should pay more tax to cover the cost of growth, while land owners and developers enjoy all the benefits of rezoning?

Expanding the use of DCCs is a good idea that warrants consideration. The advantage of DCCs is that all redevelopment pays them, not just new development involving rezoning. However, if DCCs are increased significantly (to cover additional kinds of community infrastructure) the added cost may render many potential redevelopment sites non-viable under existing zoning. Therefore, any expansion of the DCC system requires a cautious approach; it may prove to be possible to add only a couple of key new kinds of infrastructure to the list.

CACs and Density Bonusing have the unique advantage that they create the new land value that supports the ability to pay for amenities, affordable housing, or infrastructure. As long as enough of the new land value created by rezoning is available as an incentive to land owners and developers, these tools can harvest a share of the new land value for public benefit. The Province of BC, local government, communities, and the development industry will be better served by improving these zoning-based tools than by eliminating them. The flaws can be addressed:

- Municipalities should use Density Bonusing as much as possible. They should set target rates for public benefits (dollars per square foot of new density) and apply these to most projects in each housing submarket.
- Site-by-site negotiation should be reserved for large, complex, and/or unusual projects.
- The determination of CACs or Density Bonus contributions should never add to the overall approvals time. It should occur during the process, not after. Negotiations can be expedited by disclosure of the CAC outcomes of other projects and by advance communication of the methodology that will be used.
- All CAC and Density Bonus outcomes (i.e. negotiated CACs and calculated target rates) should be fully disclosed and transparent, explained in a manner that allows other developers and the public to understand and have confidence in the outcome. There should be transparency about what benefits are achieved in exchange for additional density, and what kind of analysis was conducted to determine the amount of public benefit that was provided. In complex projects, there is some risk that the analysis is hard to communicate to the public, but the onus is on the local government and its experts to communicate clearly.