

ATTACHMENT C

EMAIL FROM NANAIMO DEVELOPMENT GROUP

1 of 3

Lisa Brinkman

From: Nanaimo Development Group [REDACTED]
Sent: Wednesday, May 5, 2021 10:10 PM
To: Lisa Brinkman; Jeremy Holm
Subject: Fwd: CAC Policy - NDG Thoughts

Hello Lisa and Jeremy,

As discussed, please find below the email that the NDG sent to Council. This email captures our commentary on the current version of the CAC policy, so hopefully it will suffice as our input as part of the current public process.

Thank you,

Darren

Mayor & Council,

Further to the March 8 GPC and subsequent communications regarding the CAC policy, the Nanaimo Development Group (NDG) would like to share a few thoughts and recommendations for Council's consideration.

We believe it is important to phrase the conversation around the intent and benefits of a well thought out rezoning. Rezoning, or zoning amendments, are a process where a property owner or developer is looking to have the zoning of a property revised to allow for a change of use or an increase in density for a property. Although issues such as building height, setbacks or appearance are often quoted as being important issues for a development, these are not rezoning issues, and are more appropriately discussed as part of the development permit process. If approved, the rezoned property benefits the owner or developer by allowing more flexibility in the use of the land or more density (more building per area of land), each of which provide more economic value. The municipality also benefits from this density increase through less infrastructure costs per area of building, as well as a higher tax base. The benefits for rezoning are not just economic, but can be social and environmental as well. A mix of uses promotes social interaction between inhabitants which leads to a higher degree of mutual understanding between individuals and cultures. Higher densities can further promote this interaction, and also make for a more efficient use of the land base and use of materials, lowering the overall development's carbon footprint. While there are limits for both use and density depending on the context, citizens stand to benefit the most in the long term by municipalities allowing more varied uses and densities that exceed the current average.

The CAC policy plays an important role as it sends a signal to the development community to what sort of rezoning the City wants to encourage and adds project costs if a rezoning is being considered. Unfortunately, as we read the current draft of the CAC Policy the message we take away is that Nanaimo is discouraging creative rezoning for moderate density increases in multi-family and does not encourage small unit sizes, which we do not believe aligns with Council long term objectives. Below are a few points we feel need to be re-visited if the CAC policy is aligned with what we understand of the City's long term development objectives. We feel the best way to explore these would be to meet and discuss, but understanding that may not be feasible, we have tried to capture our thoughts below:

1. **Development Realities:** A development needs to pass multiple tests to get to construction. One the more difficult of these steps is financing. To pass this step a project must demonstrate to a lending partner that projected incomes (Based on an appraisal of current and past sales) less projected project costs (Projected forward to allow for escalation) leaves adequate anticipated profit that the lending partners feels comfortable

taking on the risk of the project. Even in an escalating market, if projected construction costs exceed current market prices, most projects will not make it to construction. Final exit pricing is governed by the market at the time of completion. Unfortunately, we cannot escape that development costs lead the market escalation. The reality is that the sum of all project costs drive up the cost to the end consumer. We acknowledge that developers will sell to the market, but if all product in a region is increasing due to development/construction costs, then the exit pricing will continue to climb until the market cannot pay anymore at which point development stalls. *NDG recommends that Council be aware of this risk when developing overlapping policies like CAC, Step Code at Re-Zoning, DCCs, MOESS, etc;*

2. **CAC versus Property Tax:** While CACs can be an attractive quick source of funds for a City, the real long term win for the community and City budget is more density as these units house more residents living and working in our community and each unit generates additional property taxes in the future. Even at the single family scale, the example below demonstrates that a balanced municipal policy is critical as any unit discouraged by the CAC policy not only doesn't generate the CAC, but also doesn't generate any property tax:
 - a. Single Family Dwelling (SFD) CAC: \$8,000
 - b. SFD Property Tax (\$600,000 Value): \$4,200 per year or \$105,000 over 25 years*NDG recommends that Council strive to find the balance when reviewing the CAC policy*
3. **"Net" vs "Gross":** CACs are intended to provide a mechanism for a City to capture a percentage of the value increase on the land when density increases are enabled by council and allocate these funds to meet the needs of the community. As such, we believe CACs should be calculated on the increased density, not the total building size. Below is an example of the cost impact of calculating on the "Gross Area" for moderate density increase in a multi-family building:
 - a. If a developer is planning a 50 unit building that meets current zoning for a site, and would like to re-zone to accommodate 55 units, the CAC would look as follows:

$$55 \times \$5,000 = \$275,000$$
 This equates to \$55,000 per additional unit, which is more than the highest current land value a developer would pay for a site in Nanaimo. In this scenario, the developer would not proceed with the application and the City would not benefit from the 10% increase in residential units and long-term income tax revenue.
 NDG strongly recommends a CAC model based on the "Net" increase in density rather than "Gross" building size;
4. **CAC Rate:** NDG acknowledges that there is room to increase the current CAC rate without significant negative impact on local development. The rate needs to be considered after the decision between "Net" and "Gross" has been resolved. If the "Net" increase is the basis of calculation, the rate should be higher than if "Gross" building size is the basis of calculation. *NDG recommends working reviewing rates after the "Net" vs Gross" discussion is made and that the increase be phased over time with a 3-4 review period to assess market conditions.*
5. **"Per Door" vs "By Floor Area":** There is complexity here as it is impossible to capture all rezoning types with a single rule. Per door may work well for a single family to townhouse rezone, but it works poorly in a multi-family rezoning for a few reasons:
 - a. "By Door" CACs do not encourage smaller unit sizes: Below are two examples for a multi-family rezonings for the same building size with different unit sizes:
 - i. 50 unit building (900sqft 2bdrm units) rezones to add 10 more similar units. Net result is CACs are collected on 60 units, \$300,000;
 - ii. 100 unit building (450sqft bachelor units) rezones to add 20 similar units. Net result is CACs are collected on 120 units, \$600,000.
 The smaller unit sizes cost \$300,000 more in CACs for the same building floor area;
 - b. "By Door" density does not align with the City's FAR based zoning bylaw for multifamily sites, so it is difficult to quantify what the density increase is or what units should count toward the increase;
 NDG recommends developing a model that account for both rezoning types, not calculate "By door" for all re-zonings;
6. **Use of CAC Funds:** *NDG recommends a CAC policy that allows flexibility to allocate funds to community priorities as they change over time. Currently we believe that lower cost housing is a critical priority for Nanaimo and funds should be directed towards that challenge;*

7. Affordable Housing:

- a. *NDG recommends that the reduction of CACs to 50% for market rate rental residential units should occur when the City vacancy rate is at 3-4% rather than 2% so that we are working preventively to avoid housing crisis rather than responding to it;*
- b. *NDG recommends expanding the Affordable Housing Special Considerations section to encourage private developers to push the boundaries of affordable housing as well as project partnered with BC Housing;*

Thank you for taking the time to consider our thoughts and recommendations. We look forward to future discussion and working with the City to ensure our policies align with Council's long term strategic objectives.

Darren, Donna, David & Toby
The Nanaimo Development Group.