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DEVELOPMENT
INSTITUTE

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November 1st, 2024
Mayor Malcolm Brodie and Council
City of Richmond
6911 No. 3 Road
Richmond BC V6Y 2C1

Dear Mayor Brodie and Council:

Re: City of Richmond Low End Market Rental Policy

On behalf of the Urban Development Institute (UDI) and its 900+ members, we express our support for staff's economic tested recommendation on the City of Richmond's Low End Market Rental (LEMR) Policy. We believe that updating the inclusionary requirement rate to 10% below the CMHC Average Rent is necessary to enable the advancement of essential housing projects.

Development Costs Context

The building sector is facing a "perfect storm" of challenges. The costs of materials and interest rates have escalated dramatically since the COVID-19 pandemic. This is adding costs to projects, combined with the high-interest rate environment hampering the ability of homebuyers to purchase new homes. At the same time, our members are facing substantial increases in fees. Metro Vancouver's Development Cost Charges (DCCs), for example, will be increasing by over 200% in the next few years. This is hindering the ability of our members to provide the new housing and job spaces that are required. As Wesgroup noted in their September 16th letter to Metro Vancouver regarding the upcoming Metro Vancouver DCC increases:

> *"Housing starts in Metro Vancouver have plummeted, dropping by over 20% year-over year in the first half of 2024 according to CMHC. In addition, many muti-family projects are not moving ahead. Pre-sales for projects in the first half of 2024 are 29% below the average of the past 10 years and of the 8,593 units released, only 1/3 have been pre-sold signaling that many of these projects won't move ahead as they may not hit a financing test to meet the requirements of the*

> *Real Estate Development Marketing Act. There are also 48 projects in Court Ordered Sale, CCAA, Foreclosure or Receivership in Metro Vancouver. An additional 10 projects are notably not moving ahead, which means over 10,000 proposed housing units in Metro Vancouver are not proceeding due to viability issues."*

To meet Richmond's housing needs, it is critical that housing policies account for these economic realities and consider the cumulative impact of fees and costs, especially amid a mounting housing crisis.

Furthermore, the recently approved *Bill 16, the Housing Statutes Amendment Act, 2024* mandates municipalities must conduct a financial feasibility analysis before implementing Inclusionary Zoning policies. As economic testing was undertaken which resulted in staff's recommendation of 10% below CMHC Average Market Rent, it is imperative that Council comply with framework set out by the Province under *Bill 16*, which underscores the importance of aligning policy with economic realities.

Impacts of Inclusionary Zoning on Housing Supply and Affordability

A growing body of research highlights the potential adverse impacts of inclusionary zoning policies on housing supply and affordability. The Terner Center for Housing Innovation at UC Berkeley recently published a report modeling the effects of inclusionary zoning requirements on housing production[i]. The findings indicate that stringent inclusionary requirements, such as deep affordability thresholds or high percentage mandates, often make projects financially unviable. When this occurs, developers are forced to abandon or scale back projects, ultimately leading to reduced housing supply.

The report also notes that making projects financially infeasible often leads to increased costs for other tenants or purchasers in non-subsidized units. This unintended outcome can further drive-up housing prices for non-LEMR units, undermining the broader affordability goals of inclusionary policies. In cases where projects are unable to proceed at all, the community faces the compounded issue of constrained housing supply.
For Richmond, aligning the inclusionary requirement with economic realities—such as setting the threshold at 10% below the CMHC Average Rent—would help balance affordability goals with project viability. Ensuring that developers can deliver the much

needed new housing without unsustainable cost burdens is essential to meeting the housing needs of Richmond residents.

Market Rents and CMHC Average Rents

It is important to recognize that the CMHC average rent is already significantly below the market averages for new developments. As noted in the report, the CMHC Average Rent for 1-bedroom apartments in Richmond for 2024 stands at $1,788; however, this figure accounts for both older and new developments, creating a stark contrast with the current asking rents, which average $2,423 for a 1-bedroom. By establishing the inclusionary requirement rate at 10% below the CMHC average, the resultant discounted rents would reflect approximately **35% below the market average**.

Many new developments command higher rents, and by setting the inclusionary requirement at 10% below the CMHC Average Rent, the City can align its policy more closely with the financial realities faced by homebuilders.

Recommendation

We recommend that Council support City staff's recommendation on setting the inclusionary zoning requirement rate to 10% below the CMHC Average Rent.

UDI and our members are committed to working collaboratively with the City of Richmond to address the housing crisis and deliver the new homes that residents urgently need. Should you have any questions or require further discussion, please do not hesitate to contact me.

Yours sincerely,

Anne McMullin
President & CEO, Urban Development Institute

[i] *Phillips S. Modeling Inclusionary zoning's impact on housing production in Los Angeles: Tradeoffs and policy implications - Terner Center [Internet]. Terner Center. 2024. Available from: https://ternercenter.berkeley.edu/research-and-policy/inclusionary-zoning-housing-production-modeling/*