

Affordable Housing in the City of Toronto - A Responsibility We All Share

Summary of Study Findings of Inclusionary Zoning
Reports and Studies June 2021



Executive Summary

In September 2020, the City of Toronto released policy proposals that provide its framework to guide the implementation of a set policies to require the construction of affordable housing units by private developers, as part of their planned developments, in and around provincial major transit station areas (PMTSAs). The City is calling these policies “inclusionary zoning” (IZ). However, because the City’s proposals lack the fundamental components of an IZ policy, where offsets and incentives are included to counter potential market distortions, the City’s proposed policies are really inclusionary zoning in name only, not in function.

In a severely constrained housing market, like that of the City of Toronto, the approach currently being proposed will only achieve affordable units at the expense of the costs of market units. In other words, in a situation of constrained market supply, hiving off a portion of that supply to be sold or rented at below-market rates will merely transfer those costs to the market units. Based on economic modelling, the cost added to a market unit to subsidize an affordable unit will be an additional \$116,000 or more.

This report consolidates the results of three (3) separate and independent studies examining existing IZ programs across North America, as well as the impacts of the City of Toronto’s current proposal. The report also includes a high level summary of the cities consultant’s conclusions on the underpinning feasibility and policy analysis for IZ. All of the studies are included within the Appendix. Three are industry-funded reports and one was funded by the City of Toronto.

Key findings are:

- Inconsistencies within the Toronto approach vs generally accepted IZ practices **are likely to reduce the amount of new development activity in some areas around Provincial Major Transit Station Areas**. This constraint on new housing supply will drive prices up further, and ultimately freeze more middle-income earners out of the housing market. In the end, fewer affordable inclusionary units will be created, with no winners coming out of this proposed approach.
- All cities surveyed offer some combination of offsets, density bonusing, or cash-in-lieu payments to achieve their goals for the creation of new affordable housing. These offsets include development charge or application fee waivers, reduced development standards, and streamlined permitting processes. **By contrast, the City of Toronto’s proposed policy does not include any meaningful form of offset or incentive.**
- The City of Toronto is already collecting for affordable housing through other funding mechanisms that need to be accounted for. The City’s **Development Charges already recover costs for subsidized housing from new developments**: Approximately 6.4% of the City’s DC is for “subsidized housing”—almost \$2,900 per large apartment unit and \$1,900 per small apartment. In addition, the new **Community Benefits Charge (CBC) can also be used to recover costs for affordable housing**. The CBC, which will be in force in the City by September 18, 2022, will equate to an additional approximately \$3,840 per unit.
- **The City should consider a phase-in period starting with a low IZ set-aside rate with specified (e.g. annual) increases** and/or an announcement to the market that the IZ policy will come into force in a certain period of time (e.g. as PMTSA plans are implemented). Both approaches would

allow markets to adjust and for sites which are currently in pre-development stages to proceed, allowing new development lands to be priced accordingly.

Reflecting on the advice of the experts, it is clear that there is much more work to be done on Toronto's proposal. But with the right parameters in place, we can collectively deliver more affordable housing for the City of Toronto. However, the current proposals will run counter to the goal the industry shares with the City, which is to provide more housing supply to meet demand over the next several decades. This is the only way to ensure a housing market that is balanced by not asking those who are renting or purchasing market-based housing in certain areas of the city to have the exclusive and sole responsibility or providing affordable housing.

BILD Supports Inclusionary Zoning (IZ)

The Building industry and Land Development Association (BILD) supports the use of IZ that includes a partnership model (i.e. offsets or incentives) as a planning tool to help enable municipalities to secure affordable housing in new developments. This is in keeping with the basic premise of IZ, namely that it is a partnership between developers, builders and municipalities to encourage the building of affordable housing units that would not otherwise be built.

In this partnership model, an equitable agreement or policy framework is put in place between the building industry and municipalities. In exchange for building these units to sell or rent for below-market rates, builders and developers are provided with incentives or concessions that help offset the costs. If there are no offsets provided, then the additional cost is simply layered onto the project, either driving up the costs of the market rate units or rendering the entire project not economically viable, effectively halting or hindering the addition of much-needed housing supply.

Addressing housing affordability and adding housing supply in a region with a severe housing shortage are laudable goals. Using inclusionary zoning to help achieve these goals, especially around major transit stations, will require thoughtful public-private partnerships that don't add the entirety of costs of the program onto those looking to buy new housing units in planned or new projects, through higher costs or reduced availability of housing supply.

Consumer Impact

The most important lens through which the City of Toronto's current proposal should be considered is the impact it will have on the consumer, namely those citizens or residents looking to buy a new home.

In the absence of offsets or incentives to defray the cost of building inclusionary zoning units, they are as follows:

1. To cover the costs of building the required number of IZ units, based on economic modeling developed by the Altus Group (included as Appendix C), the price of market units in designated developments will have to rise by an average of \$116,000. Put another way, the new home buyers at market rate will have to subsidize below-market units by over \$100,000.
2. Despite the fact that the City already collects funds for affordable housing through Development Charges and soon the Community Benefit Charge, the city is abdicating its responsibility for providing these services, artificially keeping property taxes low and placing the financial

responsibility solely on the backs of new home owners, instead of the broad property tax base. The social responsibility to provide below market rate housing should be shared across the City's entire tax base, and not limited solely to new home buyers in certain development areas.

3. Because of market distortions introduced by the City's proposal, many projects will become financially non-viable. This will limit supply and choice of new homes available for new home buyers, again impacting availability and affordability.

Introduction: Challenges with Toronto's IZ Proposal

Inclusionary zoning (IZ), also known as inclusionary housing, is a planning tool that some North American cities use to encourage the building of affordable housing units for people with low to moderate incomes. This policy tool is formulated as a collaborative approach between municipalities, builders and developers.

In Ontario, the discourse and debate on IZ has taken place for many years. In April 2018, the Province of Ontario enacted regulations that allowed municipalities to implement inclusionary zoning and outlined the process to be followed. On September 3, 2019, the Province made changes to the legislation for IZ through Bill 108, *More Homes, More Choice Act*, thereby giving municipalities certainty on how to proceed with this new tool. Through these changes, the use of IZ was restricted to areas within a Protected Major Transit Station Area (PMTSA), Development Permit System (DPS) area, or as ordered by the Minister.

The City of Toronto is currently consulting on a proposed Official Plan policy that would require a certain percentage of affordable housing units in new residential developments, creating mixed-income housing. However, the City's proposal deviates from other municipal best practices around the world in a number of instances.

Under the City's key policy proposals, dated September 2020:

- IZ policies apply at 140 units and 10,000 sq.m. of residential Gross Floor Area (GFA) city-wide and apply at 100 units and 8,000 sq.m. of residential GFA for Downtown/Central Waterfront Secondary Plan Areas.
- The affordability period for these units is proposed at 99 years starting on the first date of occupancy and the requirement for 10% of the affordable rental GFA secured at 80% of the affordable rents.
- The proposal would apply to developments in PMTSAs in strong or moderate market areas.
- The Strong Market Area set-aside rate is proposed at 10% of total GFA for market condo and 5% for purpose-built rental, and the Moderate Market Area set-aside rate is proposed at 5% of total GFA for market condo and 3% for purpose-built rental.
- The City is proposing to allow for IZ units to be located off-site with conditions, but incentives apply only when a development exceeds IZ requirements.

- In terms of implementation, they are proposing a blunt approach where IZ would be applicable to applications on January 1, 2022.

Based on the extensive experience and learnings arising from the use of IZ in other jurisdictions, the development industry believes that the City's current proposal is founded on fundamental flaws that land values will simply reset (e.g. that costs imposed on new developments will be absorbed by decreases in land value for future projects), that no partnership model is needed (i.e. no given incentives or offsets) and that the current terms of the affordability period are unreasonably long.

The City's proposal ultimately creates a policy framework that is unachievable based on its magnitude of impact and speed of implementation. In this paper, we will explore the current policy's differences from those of other jurisdictions, and its fundamental flaws, by reviewing the findings of the four subject matter experts.

(1) Lessons from Other Jurisdictions

In consideration of Toronto's proposal, PM Strategies Inc., a consulting firm specializing in city building, prepared a report in October 2020 that reflects the city's current proposal (attached as Appendix A) as it reviews the Inclusionary Zoning practices of 10 cities to understand what are the most typical and effective elements of their respective approaches. The cities in the study include Montreal, Vancouver, New York City, Portland, Boston, San Francisco, Chicago, Seattle, Los Angeles and Washington. It further contrasted these cities' approaches to IZ with the current proposal from the City of Toronto.

The findings of the report were stark: **"Toronto's proposed approach is in some ways consistent with the best practices found in these other jurisdictions and in other ways it falls short, or it simply leaves too many unanswered questions to understand the implications of the design of the policy. It is clear that the proposal is still very much a work in progress."** (Page 2, PM Strategies report)

The report went on to say that "the financial and economic viability assessment which must underpin the entire framework has not been updated to reflect the new Community Benefit Charge, Toronto's proposed changes to the definition of affordability, or the potential impacts of Covid19 on the housing market. **The proposal to institute Mandatory Inclusionary Zoning (on as-of-right development), without any offsets, is likely to reduce the amount of new development activity in some areas around Major Transit Stations. This constraint on new housing supply will drive prices up further, and ultimately freeze more middle-income earners out of the housing market. In the end fewer affordable Inclusionary Units will be created, with no winners coming out of this proposed approach.**" (Page 2, PM Strategies report)

Key findings of the study are noted below, as is a comparison of how Toronto's current proposal lines up:

- Of the jurisdictions reviewed, all have Inclusionary Zoning policies that apply to a broad range of development activity in their communities. Inclusionary Zoning requirements increase gradually over time, on average in five-year intervals. **By contrast Toronto's proposal is blunt, takes immediate effect and offers no gradual increases over time.**
- Cities with a long history of Inclusionary Zoning are moving towards mandatory policies that apply to all development. They may still apply differing approaches by district. **Toronto's**

proposal creates a mandatory regulatory regime in its first year, despite the City's lack of experience with these types of policies.

- The cities with lower project size thresholds that trigger the requirements for inclusionary units all have cash-in-lieu policies that provide an opt-in/opt-out ability for developers. **Toronto's proposal does not have a cash in lieu policy. No tangible details of offsets or incentives have been provided.**
- Minimum set-aside rates generally are in the 10%-15% range. Variable rates across a jurisdiction are common based upon market strength of area. Rates increase in central districts. The rates may be variable based upon the level of affordability tied to the units. **Toronto's proposal is currently in line with other jurisdictional set aside rates – but is missing financial offsets to make this percentage viable.**
- Cities with Mandatory policies may have density bonuses for all housing that includes affordable units. **Toronto's proposal provides no density bonusing for IZ units.**
- Affordability levels are tied to area median incomes, or family median incomes. Most IZ policies target providing housing for moderate-income and lower-income households, both rental and ownership. **Toronto's proposal is tied to income, but does not consider other variables that have the effect of deepening level of subsidy, such as condo fees, Harmonized Sales Tax, Municipal Land Transfer Tax.**
- Cities that also require units available to low-income households have mechanisms in place to support those deeper affordability levels. Property tax exemptions, tax increment financing, and capital grants are typical measures that are deployed. **Toronto's current proposal has no additional mechanisms proposed to support deeper affordability levels.**
- Cities offer a range of offsets to reduce the cost of housing, including development charge waivers, reduced development standards, and streamlined permitting processes. **Toronto's proposal has no offsets to reduce the cost of housing, which means the cost is entirely on the developer and market unit purchasers/renters.**

(2) Lessons from the City's Consultant

The City of Toronto retained N. Barry Lyon Consultants Limited (NBLC) to prepare an update to its Evaluation of Potential Impacts of an Inclusionary Zoning (IZ) Policy in the City of Toronto, which was completed in May of 2019 (the report is included as Appendix B). In their 2020 analysis, they considered the land value implications for developers that would need to acquire land in today's market in order to proceed with a development. Their study looked at market dynamics and examined the impact of providing affordable housing on the viability of a typical project (the report modeled eleven locations along existing/planned transit).

Unfortunately, much of the advice that was provided in their report was not reflected in the City's September 2020 proposal, including the following recommendations:

- “A long-term IZ policy approach [for the City of Toronto] would allow land markets to adjust and developer expertise to grow. As the high-density residential submarkets in Toronto continue to mature, there is potential to create significant amounts of affordable housing over time. However, **it will be important to gradually introduce and ‘ramp up’ IZ expectations as these markets adjust.**” (Page iv, NBLC report)
- “Another **important consideration** [for the City of Toronto] in order to mitigate unintended consequences of this nature would be to **develop the policy alongside a framework for transition. An implementation approach that phases-in the implementation of IZ** would allow for ongoing market monitoring and create time for markets to adjust.” (Page v, NBLC report)
- The City of Toronto should “**Develop the IZ framework alongside clear development entitlements in each MTSA.** A successful IZ policy requires a measure of clarity in station area plans to form the basis by which land values are established.” (Page v, NBLC report)
- **The City should consider a phase-in period starting with a low IZ set-aside rate with specified (e.g. annual) increases;** and/or an announcement to the market that the IZ policy will come into force in a certain period of time (e.g. as MTSA plans are implemented). Both approaches would allow markets to adjust and for sites which are currently in pre-development stages to proceed, allowing new development lands to be priced accordingly.” (Page vi, NBLC report)
- The City’s “**IZ policies should consider whether rules about who owns and operates the units and maintains oversight of the depth and duration of affordable as well as the unit types are necessary.** This represents a next step for the City as it consults with council and stakeholders, beginning to frame a preferred policy approach.” (Page vii, NBLC report)
- “Most of the policy experience with IZ has been in the United States. In most jurisdictions where IZ has been successfully implemented, **the central principle is that development density is traded to offset the costs of delivering affordable housing.** In some instances, there are also offsetting financial programs (tax incentives, etc.). **But it is this exchange of added density for affordable units that has underpinned the success of these policies.** Notwithstanding this, as part of this updated assessment, NBLC has been directed to test impacts from IZ when the policy is applied to a percentage of total development yield.” (Page 1, NBLC report)

(3) Economic Modeling

In October 2020, the economic consulting firm, the Altus Group, also examined the City of Toronto proposal and found that (report in Appendix C):

- **Development Charges (DCs) already recover costs for subsidized housing from new developments:** Approximately 6.8% of the City’s DC is for “subsidized housing” — \$3,462 per large apartment unit and \$2,260 per small apartment. This part of the City’s DC has increased by 2,600% since 2004. In other words, funds are already provided for below-market housing through development charges for all new development in the City and by implementing their proposed IZ policies, they are simply layering additional cost on market-rate new development.
- **Community Benefits Charges can also be used to recover costs for affordable housing:** The Community Benefits Charge (CBC) will be in force in the City by September 18, 2022, and if the City is able to utilize the full 4% cap, some or all of these funds generated can be used to fund

subsidized housing or affordable housing projects and programs. For the “North York” test site in the NBLC analysis, a 4% CBC would equate to approximately \$3,840 per unit. Over and above funds available through Development Charges for below-market housing, the new Community Benefit Framework will provide even more resources.

- **Cost of Inclusionary Zoning over lifespan of affordability period is significant:** The cost of foregone rent for an affordable unit, based on one of the scenarios from the NBLC report, over a 99-year period, amounts to over \$1,060,000 per affordable unit, or \$116,600 per market unit (assuming 10% affordable set-aside), and combine for 109% of the underlying land value. In a strong market, these costs would likely be passed onto buyers of the ‘market’ units. In other words, for every one affordable unit built under the proposal, the corresponding market unit in the same building would increase by \$116,000. Fees, taxes and charges from all levels of government equate to an additional roughly 20% of the price of a new condominium apartment unit in the City of Toronto and adding costs of the City’s IZ policy will increase that further.

The Altus Group concluded that inclusionary zoning policies have the effect of creating market distortions. If the additional costs cannot be passed on through higher prices on the market units, the City’s policy could lead to lower provision of housing across the community, ultimately eroding housing affordability (for the market units in the developments that do get built), rather than helping it.

(4) The Negative Affect of No-Incentives on the Housing Markets

Finnegan Marshall Inc. (FM) is a firm that specializes in construction costs, including land and soft project costs that make up a complete development budget. In June 2021, FM reviewed the City’s inclusionary zoning proposal (Appendix D) and their detailed analysis concluded that with the City’s current proposal there will be a significant reduction in project viability, to the extent that the low resultant profit levels after the implementation of the City of Toronto’s version of IZ will not be able to be financed by banks; nor will the profit returns be acceptable to developers and their equity investors. This in effect will halt development in the areas covered by the City’s proposal.

Prior to the implementation of the IZ policy, for high-rise condominium projects within high transit areas in the City of Toronto, for example the Yonge & Eglinton corridor, to be viable would be based on a land cost of \$215 per square foot (psf), average revenue of \$1,250 psf, and a calculated profit level of approximately 11% of budget, which is guided by bank financing. As experienced in the current Toronto market, these profit levels have already been considerably reduced from historic levels, largely due to increasing City-added costs (Development Charges, Parkland, Section 37/Community Benefits Charge, Dewatering, Lane Occupancies etc.) and construction cost escalation.

Another critical element of reduced profitability occurs when sales prices increase. As HST rebates are not indexed, the HST percentage within the sales price (that goes to the provincial and federal governments) substantially increases, leaving a reduced percentage of the sale price available to the developer. **Based on their calculations, to achieve a profit return on cost of approximately 11% post-IZ, the effective land cost, in the high transit areas, the Yonge & Eglinton corridor in the example, would need to reduce by approximately 20% or \$44 psf to \$171 psf GFA or the revenue for the market units would need to increase by \$60,000 per unit from \$1,250 psf to \$1,341 psf, which is an increase of \$91 psf NSA.** This is not accounted for anywhere within the City’s proposal.

Where do we go from here?

Toronto's current proposal has the potential to undermine the objective of adding more housing to a desperately under-supplied market, exacerbating the affordability crisis by adding cost to market units, or in the worst case scenario, both. The current proposals are not in line with other major jurisdictions, some with extensive IZ experience, and seemed to be framed from a perspective that the cost of these affordable units should be borne entirely by the market. As indicated by the introduction, what the City of Toronto is proposing is not IZ, but rather hidden taxation on new development.

BILD and its members support true inclusionary zoning and accept their responsibilities as community and city builders. They have always contributed to affordable housing through Development Charges, and will continue to do so at increased amounts with the addition of the Community Benefits System.

In order to help inform and focus policy discussions on the use of IZ around Toronto and the broader GTA, BILD has developed a municipal framework for IZ partnership. As inclusionary zoning is generally a new concept for Ontario, the objective of the framework is to provide guidance on what can often be a very complex and technical topic, thereby providing all parties with a common platform for achieving success. The framework itself covers four themes, including partnerships, how to set the right parameters, implementation and transition, and operations and maintenance.

Partnerships

- Upholding the principle of an IZ partnership model between a municipality and the industry by offering a suite of incentives and offsets is of the utmost importance to the industry.
- These incentives could include, but are not limited to, waiving or reducing development charges, application fees, Cash in lieu (CIL) of parkland levies or any other government-imposed fees or charges. Offsets could include, but are not limited to, density bonusing, above what would be approved otherwise through the planning process, reductions in parking requirements, and/or parkland dedication.
- Depending on the level of affordability that a municipality sets out, it may require federal and provincial participation as well.

Setting the Right Parameters

- Municipal zoning by-laws should be updated to provide reasonable as-of-right zoning permissions and additional density could be explicitly provided where IZ zoning is in place. Vast areas of the City's PMTSA's OPA, which are all located in the Downtown area, have areas where minimum densities are just 1.0 floor space index (FSI), and the minimum densities do not ever exceed 3.0 FSI.
- Affordability factors should be defined at the neighbourhood or community scale rather than reflect the entire municipality. They should include a reasonable definition of affordable housing that reflects the local municipality and does not tie to income.
- When determining the affordability period of the IZ units, a municipality should distinguish between planning for affordable rental IZ units or affordable ownership IZ units. The tenure for the affordability period should match the given scenario.
- Rental IZ units should not be held in perpetuity. The affordability period for these units should align with the life cycle of a building, when significant maintenance and repairs start to be needed. By that point, a building could require a significant injection of future capital to bring it up to adequate standards, codes and support any other municipal targets (i.e. carbon neutrality). Bringing these units back into the market supply at that time would align with this natural cycle of repair, and allow for building owners to afford to maintain their buildings. This

would also ensure that these units are able to absorb and adapt within the changing marketplace.

- Additional incentives should be provided if projects are held affordable for periods longer than 10 years or if the affordability definition results in deeper subsidies.
- Rent for the IZ units should be able to keep pace with inflation and residential rent increase guidelines to absorb increases in maintenance costs.
- Provide the option for cash-in-lieu. Cash-in-lieu would be a tool that municipalities can use to collect and redirect funds to support other priority housing projects within the community or neighbourhood where the market rent project is located.
- Provide the option for off-site contributions. Allowing for off-site contributions provides flexibility should there be a greater need for IZ units in other parts of a municipality.
- Ease all IZ requirements related to purpose-built rental, including the affordability period, level of affordability, and IZ set aside in order to support its continued delivery. BILD stresses that this housing product type is incredibly challenging to build. It is imperative that municipalities do not impose additional policies that make rental more difficult to build.
- Consider the cumulative effects of other planning policy requirements (i.e. heritage) and create a mechanism where reduced or waived IZ requirements can be allowed, if demonstrated to be unfeasible for a project or if other community-benefitting contributions are being met.

Implementation and Transition

- Consider a graduated and phased-in approach for implementation. A long-term IZ policy approach would allow land markets to adjust and developer expertise to grow.
- Transition provisions should allow for projects with existing approvals or active applications that are deemed complete to be grandfathered and should include a start date that is at least 1 year after the approval of the policies to allow the industry to adjust to the adopted policies.
- This would include making sure that IZ requirements are not applied to a development that has an existing approval in place (i.e. zoning) and would be proceeding with a future, subsequent approval (i.e. site plan).

Operation and Maintenance

- Guidance should be provided for the operation and maintenance of these units.
- Clear and consistent agreements for the management of units for the prescribed affordability period should be set out on a case-by-case basis to ensure optimal flexibility.

Reflecting on the advice of the experts, it is clear that there is much more work to be done on Toronto's proposal. But with the right parameters in place, we can collectively deliver more affordable housing for the City of Toronto. However, the current proposals will run counter to the goal the industry shares with the City, which is to provide more housing supply to meet demand over the next several decades. This is the only way to ensure a housing market that is balanced by not asking those who are renting or purchasing market-based housing in certain areas of the city to have the exclusive and sole responsibility or providing affordable housing.

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City of Toronto - A Responsibility We All Share**
Appendix A





INCLUSIONARY ZONING

JURISDICTIONAL SCAN OF
PRACTICES IN SELECT CANADIAN
AND US CITIES -

LESSONS FOR TORONTO

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INCLUSIONARY ZONING

JURISDICTIONAL SCAN OF PRACTICES IN SELECT CANADIAN AND US CITIES - LESSONS FOR TORONTO

TABLE OF CONTENTS

EXECUTIVE SUMMARY	2
POLICY TYPE	3
THRESHOLDS & TRIGGERS	3
EXTENT OF OBLIGATIONS	4
Determining Unit Set-Aside Rates	4
Form of the Set-Aside Taken	5
Cash-in-lieu	5
Incremental Evolution over time	6
TERM OF AFFORDABILITY	6
AFFORDABILITY LEVELS	7
OFFSETS & INCENTIVES	8
USE OF PUBLIC SUBSIDIES	8
OUTCOMES IN ACHIEVING HOUSING TARGETS	10
KEY FINDINGS	10
LESSONS FOR TORONTO	11
SUMMARY	15
REFERENCES	17
APPENDIX 'A'	18
-Comparative Charts of Inclusionary Policies of each City	

Executive Summary

The City of Toronto had been advocating for the power to implement Inclusionary Zoning for at least a decade prior to the Government of Ontario making changes to the Planning Act in 2017 that allowed for this tool to be utilised. In April 2018 Ontario Regulation 232/18 came into effect granting Inclusionary Zoning authority to municipalities. In 2019 Bill 108, the *“More Homes, More Choice”* Act limited the applicability of Inclusionary Zoning only to areas near Major Transit Stations, or where a Community Planning Permit bylaw was in effect.

Soon after Regulation 232/18 came into effect City of Toronto staff began the process required to develop the Official Plan policies and Zoning Bylaw Amendment required to bring into effect Inclusionary Zoning. Integral to that process is the requirement to have an independently reviewed, financial assessment and economic viability analysis of the Toronto housing market to determine the parameters for Inclusionary Zoning. The City retained NBLC to undertake this work. Each new amendment to Provincial Legislation or Regulations has had implications for Inclusionary Zoning that required further review to occur.

Inclusionary Zoning has been utilised since the 1970's in various jurisdictions. In the 1990's it began to be widely adopted across the United States. In Canada the provinces of British Columbia, Alberta, Manitoba, and Quebec were the first to allow municipalities to use this mechanism to secure the construction of affordable housing. Currently the City of Vancouver, its neighbouring municipalities, and the Montreal Metropolitan region are the most prominent and active locations for the use of Inclusionary Zoning in Canada.

This report reviews the Inclusionary Zoning practices of two Canadian and eight US cities to determine what are the most typical and effective elements of their respective approaches. With this review there is a yardstick against which the City of Toronto's draft Official Plan Amendment, and Zoning Bylaw Amendment can be assessed.

The cities examined are;

Montreal	New York City
Vancouver	Portland
Boston	San Francisco
Chicago	Seattle
Los Angeles	Washington, DC

Toronto's proposed approach is in some ways consistent with the best practices found in these other jurisdictions. In other ways it falls short, or it simply leaves too many unanswered questions to understand the implications of the design of the policy. It is clear that the proposal is still very much a work in progress.

The financial and economic viability assessment which must underpin the entire framework has not been updated to reflect the new Community Benefit Charge, Toronto's proposed changes to the definition of affordability, or the potential impacts of Covid19 on the housing market.

The proposal to institute Mandatory Inclusionary Zoning (on as-of-right development), without any offsets, is likely to reduce the amount of new development activity in some areas around Major Transit Stations. This constraint on new housing supply will drive prices up further, and ultimately freeze more middle-income earners out of the housing market. In the end fewer affordable Inclusionary Units will be created, with no winners coming out of this proposed approach.

Toronto's proposal to differentiate between the viability of condominium and rental construction is sound. The insistence on long term affordability represents a best practice and sound public policy, but there is no explanation of how this will be made sustainable over a ninety-nine year term.

The failure to address offsets and incentives, as all of these peer cities have done is a significant departure from best effective practices. Many questions remain about the level of affordability that is expected, and what financial measures will be put in place to support long-term affordability.

The mechanism to monitor and manage, what will become a continually expanding portfolio of affordable units has not yet been addressed. Critical questions such as who will monitor income levels of the residents of the units and what enforcement will be in place to ensure the units serve the intended households remain unanswered.

There is no doubt that some form of Inclusionary Zoning will be implemented in Toronto. It must be viable, sustainable, and effective. The proposed approach put forward requires significant changes to achieve the goals and aspirations the City has for the creation of new, long-term, affordable housing by requiring Inclusionary Zoning.

Policy Type

The type of Inclusionary Policy approach that a municipality adopts for its Inclusionary Housing regime is, usually, described as either Mandatory or Voluntary.

Mandatory policies apply to all new residential development, subject to the minimum threshold. In rare instances it also applies to non-residential development, such as in Seattle, where it applies to commercial developments in excess of 4,000 square feet. In the Seattle case the intent appears to be to create workforce housing, although not necessarily on site. Cities adopting Mandatory policies often have complex approaches to the scale of development that will be subject to the policy, the set aside rates, affordability levels, and options for how the Mandatory policy can be fulfilled.

So called Voluntary policies are designed to apply to developments where there is an application to change land use to allow for residential development, or to seek increases in density and height. A developer may “voluntarily” seek these changes but the requirements for the creation of Inclusionary Zoning under those circumstances are mandatory. They are codified into law, are equally prescriptive as Mandatory policies, and municipalities offer little flexibility to divert from those requirements.

There are two types of Inclusionary Zoning:

Mandatory – applying to all residential development

Voluntary – so called as it applies when a proponent chooses to seek changes to land use, zoning, or increases in height and density

Toronto is proposing a Mandatory Policy

Thresholds & Triggers

Thresholds for project size range quite greatly across the ten jurisdictions reviewed for the purpose of this study. However, there are two basic approaches. Small projects or large projects, with nothing in between.

A project size of ten units is quite typical (Boston, Chicago, New York at 11 units, San Francisco, Washington). Portland applies IZ requirements for project of 20 units or greater. Seattle is an outlier as just one new residential unit triggers an IZ requirement, reflecting a strong mechanism to collect cash-in-lieu funds.

Los Angeles has no set project size as their regime is triggered solely by rezoning applications. Virtually all rezoning applications will therefore trigger some level of IZ requirement.

The Canadian cities (Montreal & Vancouver) have taken a different approach. They apply IZ to larger projects where the impact of IZ will be much greater. This also reflects each city's goal to secure permanently affordable and publicly (or non-profit) owned rental housing. Vancouver refers to this approach as moving towards the "Right Supply of Housing".

Montreal, upon a rezoning, applies IZ to projects of 100 units or greater, or to projects that will add 9,000m² of new residential gross floor area.

Vancouver, upon a rezoning application, applies IZ to projects of 200 units or greater, or on large sites (2 or more acres). The city's view is that scale is important and that the ability to build sustainable affordable housing requires that scale.

Vancouver does provide for the ability to request that the Planning Department consider easing the requirements if it can be independently demonstrated that the IZ requirements for a particular project would render it non-viable. Other municipalities also provide that where there is some unique circumstance whereby a development must contribute to some other extraordinary public benefit a relaxation of the requirements can be considered. A typical reference is to the preservation of Heritage structures where there may be physical constraints on a site impeding a larger development.

Toronto's ability to apply Inclusionary Zoning requirements is limited to areas within an 800 metre radius of a Protected Major Transit Station Area (PMTSA), so the City's proposed set aside rates will capture most of the development occurring in those areas.

Extent of Obligation

Determining Unit Set-Asides

There are several approaches that are taken to determine the rate of set-aside for units created through the IZ mechanism. A market and financial viability analysis is commonly utilised, in the same way that it is required of Ontario municipalities. Most cities recognize that there are different market conditions throughout their jurisdiction, and they tailor the set-aside rates based on the strength of the local sub-market. This approach is utilised in Washington DC, Portland, New York, Seattle, and San Francisco, and to a lesser extent in Chicago. This is also the direction that Toronto is proposing to take.

Some municipalities have uniform set aside rates, but the cash-in-lieu rate is based upon the location of the contributing site reflecting the cost of housing in that location and the value that a project can generate.

San Francisco's set aside rates are linked to the size of the project, with significantly higher rates for projects of 25 or more units.

The level of affordability is also used as a determinant of the set aside rate. Portland and Los Angeles vary their set aside rates depending on the

Project size thresholds usually fall into one of two categories

Low threshold sizes are typically 10 units, Seattle's is just 1 unit

High threshold sizes are 100 – 200 units

Toronto is proposing 100 units in strong market areas, and 140 units in moderate market areas

Set-aside can be calculated as a percentage of total units, or as a percentage of Gross Floor Area

Some cities use the Gross Floor Area attributable to the increased density. Other cities use the Gross Floor Area of the entire project.

Toronto proposes to use the residential Gross Floor Area of the entire project

level of household income that the units are designed to serve. In Portland IZ is generally to serve moderate income households at 80% of AMI (area median income), however if the required units serve lower income households at 60% of AMI the set aside rate is halved (8% vs 15%, or 10% vs 20% in the downtown core).

Additionally there is a difference among municipalities on whether their calculation is a percentage of units, a percentage of the Gross Floor Area of the entire project, or a percentage of the additional Gross Floor Area created as a result of the rezoning or a density bonus. Most municipalities are either taking a percentage of Gross Floor Area, or are contemplating moving to that model.

Montreal's approach is slightly more complicated as they require a percentage of units, but for purposes of that calculation they deem an average unit to between 90m2.

Form of the Set-Aside Taken

Vancouver has established that as a priority they prefer the set aside from larger sites (2 acres or more) to be a “dirt site” that will be able to accommodate the construction of the required number of social housing IZ units. The City funds the construction of those units with a combination of available Municipal, Provincial, and Federal funds. They sometimes accept this “dirt site” as an irrevocable option to buy the land for nominal consideration and they can sell the option in the future for a profit. The funds from the sale are reinvested into other housing projects.

Since Vancouver's focus is on larger development, they prefer to secure units as an “Air Space Parcel” meaning a contiguous block of units within a larger building or development. This allows for the ownership to be held by the City or a selected non-profit housing provider. The IZ component may have its own entrance and amenities. This helps to reduce ongoing operational and maintenance costs. This is unlike many US cities which prefer units to be scattered throughout a building. Toronto is also expressing a preference for scattered units, and not adopting a so-called “poor door” approach. The Vancouver model has considerable merit for larger projects.

Montreal also is willing to accept land, stand-alone buildings, or blocks of contiguous units within a building. This is due to the requirement for the provision of social housing from developments.

American cities, generally, only expect the required units to be built by private developers and incorporated into their developments, or as stand alone privately owned affordable housing. A few cities will also accept that the percentage of affordable units can be provided in an existing rental building with the level of affordability and duration of the term secured by agreement and registered on title.

New York City leverages IZ production through the offer of city owned sites for new residential development to build large scale mixed income communities, often in relatively less developed or advantaged neighbourhoods.

The form of the set-aside required can vary. Most cities provide a range of options;

Units on Site

Units off Site

Cash-in-lieu

Land for Affordable Housing Development

Toronto is proposing On or Off Site units

Toronto is not allowed to accept cash-in-lieu of units

Cash-in-Lieu

While Toronto is restricted by Regulation from establishing a cash-in-lieu mechanism it is important to understand how other cities utilise this option as part of their overall approach to IZ policy. However, Toronto does have the potential ability to generate funds from the units that are built. This is explained later in this section.

Cities such as Boston, Chicago, New York, and San Francisco charge in-lieu fees that represent the construction cost or land value cost of the unit that is not provided. Boston requires a payment per unit of between \$200,000 to \$380,000. Chicago fees are from \$50,000 to \$235,000 per unit. New York requires payments of between \$230/sf up to \$1,165/sf for unbuilt units. San Francisco charges \$199.50 per unbuilt square foot.

Los Angeles distinguishes between rental and ownership units. Unbuilt rental units in Los Angeles are to compensate the City from \$53,000 to \$102,000 per rental unit. For unbuilt ownership units they can charge up to \$400,000 per unit.

Additionally Los Angeles adopted an Affordable Housing Linkage Fee in 2018 that applies to all types of new development (except prescribed affordable housing, student housing, & seniors housing) with fees ranging between \$3.11 to \$18.69 per sf depending on the area. The funds go to the Affordable Housing Trust.

Portland, and Seattle charge much lower rates-in-lieu of providing the units, reflecting a more nuanced approach to the viability of IZ especially as it impacts smaller projects. Montreal's approach is more complicated with varying fees for unbuilt units and acquisition of land upon which to build affordable or social housing.

Under Ontario Regulation 232/18 the City can take up to 50% of the sale price of an affordable unit. This provision does not distinguish between different tenures of units.

The City of Toronto will potentially be able to secure funds from the sale of ownership units. Affordable Ownership units when sold by a developer will represent a discounted unit price, with the funds normally flowing to the developer as part of the project's revenue, however the city may take a portion of those sales. Through long term affordability and price controls imposed on ownership units the city could receive a share of the proceeds of all future re-sales of those affordable units. The portion of this revenue that Toronto may retain has not yet been divulged by the city.

Affordable rental units in theory could be sold by a developer to a non-profit housing provider, that may be able to secure funding for the purchase by a CMHC backed mortgage or grant. The City has not provided any information on how they may view such transactions.

Incremental Evolution over time

It is important to note that the cities reviewed for this study have all had IZ policies in place for fifteen years or longer. Their current requirements for contributions are higher than what their original policies required. On average these jurisdiction revise and update their policies approximately every five years. Each time the policies are revisited, the set aside rates and other elements of the policies are made more demanding. This is partially a function of incrementalism, and partially as a result of the fact that the policies never produce enough new affordable housing to keep up with the growing need.

Montreal City Council is currently considering a Mandatory Inclusionary Housing policy that, if approved, will apply to all new development of 5 units or more. With maximum set asides rising from 30% of units to 40%, but with a robust cash-in-lieu mechanism offering an opt-out to developers.

Term of Affordability

Most cities' IZ requirements are moving towards long term or permanent affordability. There are a few different approaches depending upon the jurisdiction.

In New York City a critical component of their IZ regime is that projects providing Affordable Rental units are benefitting from a 35-year property tax waiver. The term of guaranteed affordability is tied to that programme. The expectation is that at some point in the future there may be extensions to that programme. New York City also has some of the strictest rent control regimes anywhere in North America so even with the loss of the property tax waiver existing tenants would continue to have significant protections from future rent increases.

Boston provides for an initial term of 30 years, with options to extend for 20-year intervals. Seattle requires a 50-year term.

Vancouver and Montreal's focus on securing units as social housing. This provides an important guarantee of long-term affordability. In Vancouver privately owned rental units are required to guarantee their affordable units for 60 years.

In all cities Affordable Ownership units are protected through the use of covenants on title, or mortgages held by cities that ensure that future sales will not result in windfall profits for owners. Many cities have strong monitoring practices for these units and controls in place so that units may not be sold, or leased to tenants, without the permission of the respective jurisdiction.

Affordability Levels

Across all jurisdictions rents and sale prices are tied to average median incomes (AMI) or family median incomes (FMI).

In some cities where target incomes are 30%-60% of AMI the primary goal is to create housing for lower income households. Cities that require housing for households above 60% to 100%, and even higher, are trying to provide a housing solution for moderate income households, sometimes this is also referred to as workforce housing.

Diversifying the level of affordability for secured IZ units is a practice that is becoming more popular. As an example, in San Francisco a large purpose-built rental project is required to set aside 20% of their units. Of that number 12% are to be at 55% AMI, 4.25% at 80% AMI, and 4.25% at 110% AMI. Boston, New York, Portland, Seattle and Los Angeles all have adopted a similar approach.

New York, Portland, Seattle. and San Francisco have requirements targeting some of the lowest income households with some units to be provided with rents as low as 30% of AMI. New York, Portland, and Los Angeles give developers the option to choose their level of set-aside but with the knowledge that the lower set-aside rates commit the developer to provide deeper affordability. The units with deep affordability, 30%-50% of AMI, also qualify for public subsidies.

Cities set Affordability levels as a percentage of Area Median Incomes (AMI) or Family Median Incomes (FMI)

Units for Moderate Income households fall between 60%-100% of AMI

Lower Income households have incomes between 30%-60% of AMI

Toronto is proposing to provide IZ units to Lower Income Households between 20%-60% of AMI, the deepest affordability level among the comparator peer group

Portland allows for the provision of the IZ units off-site in existing rental buildings with the provision of deep subsidies at 30% of FMI with a 15% set aside. This level of affordability may make the project eligible for additional Federal Low-Income Housing Tax Credits and municipal support.

The US approach to affordable rental units that are privately owned is to assume that the landlord will cross subsidise the units. This may be feasible in a purpose-built rental building but cannot be sustained in a condominium building. US cities set aside funds to provide assistance for special assessments and increases in condo maintenance fees that are higher than inflation. The lowest income households may be provided with direct housing assistance, or it may be provided to the landlord, depending on the jurisdiction.

Toronto's affordability levels would offer some of the deepest levels of affordability among all the cities reviewed in this study. This is proposed to be the case for both rental and ownership units.

Offsets & Incentives

The most common form of incentive being offered by municipalities across all jurisdictions reviewed is the provision of additional height and density. The relaxation of certain development standards is also very common, especially reduced parking rates. More flexibility on building setbacks, open space requirements, and transitions to neighbouring properties is also common.

California which is one the States with the greatest number of municipalities enacting Inclusionary Zoning, has a state-wide density bonus provision whereby increases in density of up to 30% are allowed in most circumstances when affordable housing is included in a development, and can override local zoning by-laws. When a municipality, such as San Francisco, made IZ mandatory on all residential development the offset/incentive available to developers is to avail themselves of that potential density bonus. This provision was specifically designed by their Legislature to work with Inclusionary Zoning.

New York State crafted a Property Tax Exemption for purpose built rental housing that includes prescribed amounts of affordable units that works in tandem with the New York City mandatory Inclusionary Zoning requirements. City and State leaders negotiated these provisions. This provision was specifically designed by their Legislature to work with Inclusionary Zoning.

The State of Oregon provides a Construction Excise Tax exemption on the affordable units.

In other cities where IZ is mandatory for all residential development it is challenging to find data indicating how many units are being constructed under as of right zoning and how many are seeking some form of relief from the zoning bylaws. Those municipalities do however offer cash-in-lieu options which may be appealing to many developers. The impact of various State and Federal tax breaks also has to be considered as being an important factor in the

Most typical incentive offered is an increase in height or density upon rezoning

California projects benefit from mandated density bonuses available for as-of-right projects throughout the state

Relaxing certain development standards such as parking is common

Most cities offer waivers or reductions of development charges, and other fees

Rental development can be incented by Property Tax waivers

Toronto is offering nothing other than what can be negotiated through the rezoning process

viability of Inclusionary Zoning in as-of-right developments in the US. Lower income housing attracts significant investment from institutional and other investors across the US who view it as a sound, long-term, socially responsible investment. However, that investment is grounded in the tax incentive programmes.

All the cities reviewed offer some measure of reductions in fees and levies for the production of IZ units. Vancouver waives development charges on the IZ units produced. Montreal offers waivers and reduced charges. These approaches are not codified within the IZ bylaws or ordinances but are indeed the practice across these jurisdictions.

Toronto's drafting of the Official Plan policies and Zoning Bylaw amendments in isolation from the necessary approaches to offsets, incentives, and subsidies that are undertaken in all the other jurisdictions makes it difficult to make a comparison o

Use of Public Subsidies

The American cities reviewed in this paper all benefit from Federal programmes designed to assist with the construction of new affordable housing. There exists a high level of bi-partisan support for these programmes at the US Capitol because both parties can agree on the need for more affordable housing, and that private sector has a critical role in building that housing.

The Low-Income Housing Tax Credit (LIHTC) is the primary means for private developers to be incentivised to build affordable housing. Private developers apply for a certain amount of Tax Credits on a per project basis. There are criteria on how many units must be affordable, the level of affordability, and that projects must be completed within a specified timeframe. The Tax Credits offer either a 4% or 9% Federal Tax reduction for up to 15 years. The LIHTC can be utilised by the developer themselves or be used to raise capital from private investors who receive the Tax Credits as part of their return on investment. Some states augment this programme to offer state tax credits as well. On average from 1995-2018 it has supported 1400 projects per year, producing 106,000 affordable units annually. There is nothing comparable available in Canada.

There are other US Federal housing programmes available for the refurbishment and redevelopment of existing affordable and social housing projects. There are State funds and municipal funds also available. All these funding sources combined are often utilised in American cities for urban renewal projects that constitute a significant portion of urban housing projects.

In 2017 the US adopted Opportunity Zone Legislation which applies to the lowest income census tracts throughout the US. Development and investment in those areas is eligible for up to a 100% Capital Gains exemption. While this can spur urban renewal in many American cities, it can also cause displacement and gentrification, driving housing prices up. The application of Inclusionary Zoning in those areas however does provide new, good quality, permanent affordable housing.

Affordable & Low-Income Housing built in US cities can benefit from generous tax credits such as the Low-Income Housing Tax Credit (LIHTC)

Chicago offers Tax Increment Financing

New York City offers Property Tax Exemptions for 35 years on Rental projects

Vancouver and Montreal rely on Federal/Provincial/Municipal funds to build some of their Lower Income Inclusionary Units

Toronto is not considering any form of subsidies to support the long-term affordability of Inclusionary Units

Chicago utilises Tax Increment Financing to support the creation of purpose-built rental housing, requiring specified levels of affordability and term of the guarantee. Boston allows developers where projects are only marginally viable to receive funding from the City's Inclusionary Development Fund.

New York City and Washington DC offer property tax relief. New York City is also actively engaged in the sale of public lands to stimulate new affordable housing developments.

Vancouver and Montreal access Federal and Provincial Housing programmes to help build the social housing unit projects which flow from their Inclusionary Zoning requirements. The National Housing Strategy has allocated \$17.15 Billion to support the construction of new affordable housing. The BC and Quebec governments have allocated additional pools of funds to augment the NHS.

Toronto will only provide subsidies if a project contributes more than the required amount of gross residential floor area, or deeper levels of subsidy.

In 2017 the City highlighted the achievement, in the Affordable Housing Action Plan for that year, that the City facilitated the creation of 85 affordable rental homes (at or below 80 percent of average market rents for a minimum of 25 years) as part of the Mirvish Village Redevelopment using federal and provincial funding as well as City financial incentives. This represents approximately an 11% set aside, but for a far shorter term, and less affordability than what the City expects the private sector to deliver, without subsidy, through the Inclusionary Zoning mechanism.

Outcomes In Achieving Housing Targets

A review of these jurisdictions has found that they have all secured affordable units through their Inclusionary Zoning. In every case the affordable units created through this mechanism were a critical element in the production of new affordable housing in their communities.

However, there are no municipalities that have achieved their stated goals for production of Inclusionary units. This appears to be the result of several factors. Over optimism of how much development activity will actually occur. The lag time between when a project is approved and when it is actually delivered. Difficulty in determining how investment decisions may be impacted by changes in IZ policies over time. In cities where the IZ policies have local variations by district, some development is shifted to areas with lesser, or no, inclusionary requirements.

The creation of new affordable units is tied to the strength of the local housing market to create new market housing. If market housing starts decline, so do IZ units. In all of the cities reviewed housing prices have been increasing regardless of the level of new construction. Constrained supply of land or units, where demand remains strong increases all housing prices. Demand for affordable units continues to outpace the production of units.

Projects which are reliant on some form of public subsidy may be delayed until the funds are made available.

Vancouver's real estate market has cooled, and a number of larger projects have stalled and are not moving ahead as quickly as was expected. There are overtures being made to City Hall to relax some of the Inclusionary requirements for specific developments, on the basis of economic viability.

Portland has seen a reduction in new housing starts since the more onerous IZ rules were put in place in 2017. There has been a reduction in building permits of 64%. The central core in particular has seen a decrease in new housing starts.

The impact of local politics is also a factor in the success of these policies. Where local elected officials limit the development potential of lands, consequently the production of IZ units is also reduced.

In Los Angeles the City and County are strong proponents of Transit Oriented Communities. There are specific density bonus and IZ policies for those areas. Planning staff were recommending additional zoning and development standards changes that would unlock more development potential along LA's major arterial roads served by transit. Due to community opposition the City Council rejected those recommendations in 2017 and therefore constrained the amount of development, and resultant production of IZ units near transit stations.

In New York City the implementation of Mandatory Inclusionary Housing in 2016 was proposed to be accompanied by significant changes to Zoning Bylaws and Development Standards that would apply to as-of-right development. New York City Council rejected those changes.

Key Findings

The jurisdictions reviewed all have Inclusionary Zoning policies that apply to a broad range of development activity in their communities.

Inclusionary Zoning requirements increase gradually over time, on average in five-year intervals.

Cities with a long history of Inclusionary Zoning are moving towards Mandatory policies that apply to all development. They may still apply differing approaches by District.

The cities with lower project size thresholds that trigger the requirements for Inclusionary units all have cash-in-lieu policies that provide an opt-in/opt-out ability for developers.

Cash-in-lieu fees are tied to the construction value, or the affordability gap in most cities.

Minimum set-aside rates generally are in the 10%-15% range. Variable rates across a jurisdiction are common based upon market strength of area. Rates increase in central districts. The rates may be variable based upon the level of affordability tied to the units.

Cities with Mandatory policies may have density bonuses for all housing that includes affordable units.

Long term, or permanent, affordability of the units is the goal in most cities.

Affordability levels are tied to area median incomes, or family median incomes. Most IZ policies target providing housing for moderate income and lower income households, both rental and ownership.

Cities which also require units available to low-income households have mechanisms in place to support those deeper affordability levels. Property tax exemptions, Tax Increment Financing, and capital grants are typical measures that are deployed.

Cities offer a range of offsets to reduce the cost of housing. Development charge waivers, reduced development standards, and streamlined permitting processes.

Lessons for Toronto

The addition of Inclusionary Zoning to Toronto's ability to secure affordable housing is a long-awaited endeavour. It will represent a real sea change in how the production of new affordable housing is determined. It will impact the housing market as a whole in many different ways.

The draft Official Plan Amendment and Zoning Bylaw Amendment forwarded by City Council for public consultation are the result of close to two years of study, research, and consultation by City Planning Staff.

In some respects, they adhere to best practices found in cities with mature Inclusionary Policies. In other respects, they fall short, or simply have not addressed all of the nuanced aspects of what makes an Inclusionary Zoning regime effective and sustainable.

Type of Policy

Adopting a Mandatory Inclusionary policy from the outset is a highly ambitious move. Most other cities began with versions of Voluntary policies (triggered upon rezoning) and only shift to Mandatory policy after the mechanisms and practices of how to administer them have been worked out. It also requires time for the development industry to adjust and become familiar with the new requirements and determine what works and doesn't work for them.

If the Mandatory policy is implemented a lengthier transition period should be enacted for as-of-right developments than for projects that are undertaking a rezoning process. Alternatively, and preferably, the Mandatory policy should offer additional density bonuses equal to, or greater than, the amount of the set-aside. This measure would make the shift to Mandatory Inclusionary Zoning easier to adapt to and maintain project viability.

Initial Inclusionary Zoning implementation should be limited to sites that are being rezoned, or Provide density bonuses equal to, or greater than, the set aside taken to encourage Transit Oriented Development for as-of-right development

Thresholds & Triggers

The size of development that would trigger an Inclusionary Zoning requirement is consistent with what other Canadian cities have implemented.

Most other cities acknowledge that there may be circumstances when the provision of IZ units is not feasible. Examples of such situations are when a significant public benefit other than affordable housing is required to be provided, or where the retention and preservation of a heritage property may add constraints to the development of a site. The need for some measure of flexibility is warranted given that the IZ requirements are not appealable to the Local Planning Appeal Tribunal (LPAT).

The policy should allow for the ability to make a request to the Chief Planner, Executive Director of City Planning, for consideration to waive the Inclusionary Zoning requirements on an exceptional basis. Staff could require a site-specific financial viability assessment be conducted by a third party to confirm the grounds for the request. It would remain within City Council's discretion to accept, or reject, the Chief Planner's recommendation.

Adopt a policy that allows for the consideration, by the Chief Planner and Executive Director of Community Planning, of a request to reduce or waive Inclusionary Zoning requirements in exceptional circumstances. The Chief Planner's recommendation would be submitted to City Council for a decision.

Extent of Obligation

The City is proposing set asides for Ownership housing of 10% of the residential gross floor area in strong market areas, 5% of the GFA in moderate market areas, and for Rental projects 5% of the GFA in strong market areas and 3% of the GFA in moderate market areas. These are recommendations based upon the findings of NBLC's financial and viability analysis. This is consistent with the incremental approach which has been taken in

most jurisdictions of gradually introducing Inclusionary policies. Differentiating between Ownership housing and Rental housing is critical as the rental construction industry is less active and more sensitive to added costs. The rental construction sector should be granted a longer transition period before the requirements apply to the sector.

Toronto has fewer options at its disposal to offer to developers as an alternative to the production of on-site units as the Regulations prohibit cash-in-lieu payments. The set aside rate for on- and off-site units should be the same, unlike the practice in many other cities.

Provide a longer transition period for the implementation of Inclusionary Zoning for Purpose Built Rental projects.

The set aside rate for Off-site units should be the same as for On-site units.

Term of Affordability

Other cities are moving towards long terms and permanent affordability. Toronto should do the same.

What is unclear from the draft proposals is how the long-term affordability will be secured, meaning who will pay the difference between the rents collected and the ongoing operational and capital repair costs over a 99-year term.

Provide for the long-term viability and sustainability of the affordable units. Create a plan to address supports that could be provided if, in the case of a condominium, special assessments or extra-inflationary increases in maintenance fees occur.

In the case of rental properties address the issue of Above Guideline Rent Increases, to ensure that capital repair costs attributed to affordable units could be recovered in some manner over the length of the term.

Affordability Levels

Toronto is proposing deeper levels of affordability across the board than other cities. This may fail to address the housing needs of moderate-income households, also sometimes referred to as workforce housing or missing middle housing. The addition of Inclusionary requirements may have the impact of squeezing out more moderately priced homes. The policy needs to be carefully calibrated to ensure that the entire spectrum of households has access to new housing.

An Inclusionary Zoning Policy should provide housing to a range of households. Units for Moderate Income households, or Workforce Housing, should be part of the mix.

Toronto's affordability levels are among the deepest proposed of any of the peer group cities in this report. Other cities, to achieve these levels of affordability provide offsets, incentives, and public subsidies.

Offsets & Incentives

Toronto's draft policies fall short of what all other cities do to support the successful production of affordable units under their Inclusionary programmes.

It is typical to waive development charges and levies on the affordable units. In most municipalities they represent a significant component of the cost of producing new housing. In Toronto where it is likely that most of the IZ units will be created in Multi-Residential buildings the current charges range from \$30,000 to \$64,000 per unit. The implementation of the Community Benefit Charge will add further costs on top of that.

The Planning Approvals system in Ontario is very different than other jurisdictions. In Toronto most new development is the result of a rezoning application, which frankly is not a high hurdle to overcome. Consequently, land prices reflect an expectation by both vendors and buyers of significant additional density. In many US cities the rezoning process is far more difficult than here, the number of distressed neighbourhoods is far greater providing greater opportunities to develop housing more affordably. Some cities offer subsidies and supports for rental housing over the long term, most notably New York.

The inherent differences between the financial viability of rental housing development and condominium, or ownership, housing requires an approach closer to the one taken in high cost cities such as New York where specific incentives for rental housing production have been tailored to dovetail with Inclusionary Zoning.

To implement a Mandatory Inclusionary Zoning Policy the City should provide as-of-right developments with a density bonus at least equal to the amount of Gross Floor Area ascribed to the Inclusionary Units.

Development Charges, Parkland levies, and the Community Benefit Charge should be reduced or waived on the Inclusionary Units.

Public Subsidies

Toronto's preference for very long-term affordability is in keeping with best practices elsewhere. However, it is unclear what mechanisms will be put in place to ensure that Affordable Rental units, if they are under private ownership can be sustainable in the long term without some form of government support. If these units come into public or non-profit ownership, then the City will have to be the backstop for financial shortfalls. Toronto has not set out any plan for how affordable rentals in condominium buildings will be secured as affordable for the 99-year term the City is considering. The Condominium Act will prevent the cross subsidization of maintenance costs, utilities, and special assessment fees among different classes of units. Similarly, a public backstop to ensure the long-term affordability will be provided for these units.

The Montreal and Vancouver approaches to utilise IZ to build stand alone social housing should be considered. Can the City act as an aggregator, or broker, of off-site units that if coupled with public funds could produce larger and more affordable projects? This requires consideration of how a sophisticated approach to the off-site unit policy can be leveraged to produce more units.

The Toronto Housing Action Plan 2020-2030 has as one of its most significant goals the creation of 40,000 new affordable rental units. To achieve this goal significant measures need to be provided to both incent increases in rental housing construction and create the financial conditions to support such unprecedented numbers of affordable rental units in a single decade.

New York City and New York State together worked on providing a tax break for new rental housing that includes an affordable component. The State's property tax waiver was designed to complement the City's Mandatory Inclusionary Zoning. The thirty-five year tax waiver does not apply to just the affordable units in a project but to the entire rental project, with some limits.

A program on that large a scale would require support from either the Provincial or Federal governments to offset foregone revenues to the City. A more narrowly focussed tax waiver to at least cover the affordable Inclusionary units could be implemented by the City on its own.

Use the requirement for Inclusionary Units to be creative and leverage larger affordable projects using funds from the National Housing Strategy, Province, and Municipal funds.

Provide incentives to encourage the construction of more purpose-built rental housing.

Provide at least a 35-year property tax waiver to affordable rental units created by IZ.

Create a mechanism to ensure that scattered rental units in condominium buildings can secure public funding to maintain long term affordability.

Summary

Toronto's draft proposals for Inclusionary Zoning are overly ambitious for a first-time implementation in a municipality. Other cities build up their IZ policies incrementally over time as the development industry and local real estate market adjusts to the new requirements. The foundational belief that IZ requirements result in lower land prices, if true, needs to provide the real estate market with time for this adjustment to occur.

A Mandatory policy, without the incentive of additional density for as-of-right development, is premature and is likely to have a negative impact on housing production in those areas where it would apply. Most areas of Toronto are currently under-zoned. This requirement will simply encourage more aggressive rezoning proposals, or shift development away from major transit station areas.

The application of IZ to projects of 100 units, or 140 units, and greater is consistent with the approach taken in other Canadian cities and would allow for IZ units to be delivered in projects large enough to absorb the costs and remain viable.

Toronto's varying set aside levels between moderate market and strong market areas represent a best practice among the peer cities reviewed. The differentiation of set aside levels between ownership housing and purpose-built rental housing is an acknowledgement of the very different financial realities of building rental housing in this City.

The requirement for long term affordability is consistent with best practices in other cities but is not accompanied by any of the offsets, incentives, or subsidies offered elsewhere to make it a viable, sustainable proposition for the private sector. The total cost of Application Fees, Development Charges, Parkland Contributions, Section 37 payments, and soon the Community Benefit Charge can account for 20%-25% of the cost of a new home. The reduction or elimination of those costs from the units create by Inclusionary Zoning would make a meaningful impact on their affordability.

Rental units, whether purpose built or scattered throughout a condominium, require some measure of public support to ensure the levels of affordability Toronto wishes to achieve are maintained.

Cities with mature Inclusionary Zoning policies all provide for a range of offsets, incentives, and public subsidies to ensure the ongoing viability of housing production and to deliver IZ units in larger numbers. Comparisons to US jurisdictions are not applicable to the Toronto context given the wider range of Federal supports for the creation of affordable rentals available in that country. This requires Toronto to become more creative and determined with how it will leverage public financial support to secure the affordable housing production that is required.

Both Montreal and Vancouver have taken approaches that focus less on securing scattered IZ units and more on leveraging the private sector housing production into partnerships with their respective cities to achieve affordable housing construction at scale.

Adopting an approach that may undermine the City's efforts to create Transit Oriented communities would be a significant blow to improving the mobility of residents in this city.

Creating conditions that have unintended or unforeseen consequences for the construction of mid-rise buildings or squeeze out moderately priced market housing have to be considered carefully in the design of the City's program. These are situations that have occurred in some other municipalities that moved too aggressively in their IZ requirements.

Toronto's ambitions to create significant numbers of affordable housing units through Inclusionary Zoning require a shift in the current proposed approach to acknowledge that Inclusionary Zoning must be implemented gradually and as a partnership between the public and private sectors. The requirements must be evidence based upon the required financial viability analysis.

A carefully crafted policy that acknowledges the limits of what the private sector can deliver in a short period time will ultimately result in the creation of a housing supply that fulfills the needs of the widest range of households. Housing Affordability depends upon the ongoing robust supply of new housing of all types being delivered to Torontonians.

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APPENDIX A

Comparative Charts of Inclusionary Policies of Each City

TORONTO (proposed policies)	A-1
MONTREAL and VANCOUVER	A-2
BOSTON and CHICAGO	A-3
LOS ANGELES	A-4
NEW YORK CITY	A-5
PORTLAND	A-6
SAN FRANCISCO	A-7
SEATTLE and WASHINGTON	A-8
OFFSETS & INCENTIVES	A-9
-At a glance, all Cities compared	

Policy Type	Threshold / Trigger	Extent of Obligation	Affordability Term	Affordability Level	Offsets & Incentives	Public Subsidies Available	Outcomes	
<p>Toronto - Proposed Draft Policies</p>	<p>Mandatory</p>	<p>100 units in strong market areas*, or 8,000 m2 of residential GFA</p> <p>140 units in moderate market* areas, or 10,000 m2 of residential GFA</p> <p>Only applies to developments within 1 km of a Protected Major Transit Station Area(PMTSA), there are potentially 180 PMTSAs</p> <p>Exemptions- Residential Care Homes Institutional Student Residences Non-Profit Housing</p> <p><i>*North York City Centre and Etobicoke City Centre are moderate market areas, all other parts of the City are strong market areas</i></p>	<p>For Condominiums and Ownership housing;</p> <p>10% of the Gross Residential Floor Area in strong market areas</p> <p>5% of the Gross Residential Floor Area in moderate market areas</p> <p>For purpose-built Rental housing;</p> <p>5% of the Gross Residential Floor Area in strong market areas</p> <p>3% of the Gross Residential Floor Area in moderate market areas</p> <p>Units can be provided off-site but that requires a Zoning By-law Amendment to accomplish</p>	<p>99 years</p>	<p>Rentals- (not to exceed 80% AMR) (rent not to exceed 30% of household income)</p> <p>Bachelor Units 20%-50% AMI (\$494 - \$918/m)</p> <p>1 Bedroom 30%-60% AMI (\$702 - \$1,099/m)</p> <p>2 Bedroom 30%-60% AMI (\$702 - \$1,273/m)</p> <p>3 Bedroom 30%-60% AMI (\$702 - \$1,413/m)</p> <p>Ownership- (occupancy cost not to exceed 30% of household income) (5% down payment, 2% mortgage) (est. sale prices -2019)</p> <p>Bachelor Units 30% AMI \$ 130,000</p> <p>1 Bedroom 40% AMI \$ 195,000</p> <p>2 Bedroom 50% AMI \$ 250,000</p> <p>3 Bedroom 60% AMI \$ 300,000</p> <p>Toronto proposes to provide the deepest levels of affordability among the comparative peer group</p>	<p>None</p>	<p>Possible only if project provides more residential GFA, or deeper affordability levels than required under the Inclusionary Zoning Bylaw</p>	<p>The HousingTO Action Plan 2020-2030 calls for the creation of;</p> <p>40,000 new affordable rental homes 4,000 new affordable ownership homes</p> <p>Assuming average Multi-residential production Of 14,000 units per year in Toronto remains steady</p> <p>If the IZ Bylaw, as proposed comes into effect, it may generate approvals of between 700 - 1000 units per year.</p> <p>Over the plan's term potentially 7,000 to 10,000 units could be approved as Inclusionary zoning units, assuming current rates of production and development patterns in the same areas of the City.</p> <p>It will likely fall far short of the rental target, but may exceed the ownership target</p>

Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Levels	Offsets & Incentives	Public Subsidies Available	Outcomes
<p>Montreal</p> <p>Voluntary</p> <p>First brought in 2005 the program had been updated and expanded in 2012, 2005, 2017, and a new proposal for Mandatory IZ is before City Council in 2020</p>	<p>Upon a rezoning which will result in a project of;</p> <p>100 units, or 9,000m2 of residential GFA</p> <p>Set asides are calculated only on the increased density and not on the base density</p>	<p>15% of units on site to be social housing</p> <p>15% of units on site to be rental or ownership affordable housing</p> <p>Option to build off-site, equivalent to 17.6% of units to be social housing</p> <p>Option to sell to the City clean & serviced land for social housing at \$12,000 per unit.</p> <p>Option to pay cash-in-lieu, 20% of the increased GFA as a result of rezoning divided by 90m2, resulting in a unit count with payments per unit ranging between \$10,500 to \$29,000 per unit depending on market area</p> <p>Montreal requires that social housing projects optimally be at least 30 units as a walk-up, or 200 units if elevators are required to be a viable development.</p> <p>Some boroughs, or local towns have supplementary set asides of an additional 5% social Housing and 5% affordable housing. Some also have lower thresholds for IZ (Verdun requires a contribution from even just 1 new unit of housing)</p>	<p>Permanent</p>	<p>Social housing units are:</p> <p>Rent geared to income across certain bands of income levels</p> <p>Ownership of social housing units rests with City or Housing Authority</p> <p>Affordable Units –</p> <p>Individual households not to exceed 30% of income on housing costs</p> <p>-max rents 2019 Studio \$ 820 1 Bedrm \$ 984 2 Bedrm \$1,107 3 Bedrm \$1,313</p> <p>-max sale price 2019 Studio \$ 200,000 1 Bedrm \$ 250,000 2 Bedrm \$ 280,000 3 Bedrm \$ 360,000</p>	<p>Density bonusing, relaxation of certain development standards</p> <p>Grants and loans for the construction of Social Housing</p> <p>Provision of underutilised public lands</p>	<p>Provincial & Municipal funds to subsidise certain projects</p> <p>CMHC mortgages, loans, and grants</p> <p>Montreal Housing Authority (SHDM) funding for certain affordable rental and ownership projects</p>	<p>Social Housing 2005-2018 6,564 units secured by approvals & financial guarantees, to date only 3,538 units completed or under construction</p> <p>Affordable Housing 2005-2018 5,704 units secured by approvals & financial guarantees, to date only 2,714 units completed</p> <p>Cash-in-lieu 2005-2018 \$22.55 Million collected, of this \$21.4 Million was for Social Housing \$ 2 Million was realized from the forfeiture of letters of credit for unfulfilled commitments</p> <p>Montreal currently considering an expansion of the program to include all development of 5 units or more, Set asides, based on total residential GFA, of; 20% Social housing 20% Affordable housing And mandating a minimum mix of family sized units Higher set asides for off-site construction and higher cash-in-lieu rates</p>
<p>Vancouver</p> <p>Mandatory in certain districts,</p> <p>Voluntary, Required on rezoning elsewhere</p>	<p>Rezoning large sites (2+ acres)</p> <p>or</p> <p>Or sites that will add 200 units</p>	<p>On large sites 30% of residential GFA, with priority given to securing equivalent as a "dirt sites" so that purpose built affordable rental and social housing projects can be built. Allotment of 20% social housing, and 10% moderate income rental housing</p> <p>Elsewhere a range of 20% - 30% depending on Planning District</p> <p>Where units are secured they are generally delivered to the City in an "Air Space Parcel" with separate entrances and amenities.</p> <p>Can be provided on-site or off-site.</p> <p>Allows for flexibility for unique circumstances.</p>	<p>Social Housing-permanent</p> <p>60 years for other</p>	<p>Social housing - Rent geared to income</p> <p>City and funding partners responsible for costs associated with long term affordability</p> <p>Moderate Income Housing targeted towards household incomes of \$30,000 to \$80,000/yr expected to be provided by private developers</p>	<p>Increased height and density, relaxed development standards.</p> <p>Specific Density bonuses for Purpose-Built rental projects in certain zones</p> <p>Development charges are waived on units created through IZ.</p>	<p>Federal/Provincial/Municipal Funds for the construction of stand alone Social Housing</p> <p>Provincial – Interim Construction Financing for the portion of a project which is affordable rental</p> <p>City – Waived development charges on entire project for purpose-built-rental that provides 20% affordable units</p>	<p>As of December 2017, 21 projects approved under Inclusionary Zoning totalling approx.. 1,500 social housing units for low-moderate income families.</p> <p>Goal 2018-2028 is to secure 4,200 social housing units through IZ</p>

Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Level	Offsets & Incentives	Public Subsidies Available	Outcomes
<p>Boston</p> <p>Mandatory, Required on rezoning.</p> <p>Last update in 2015</p>	<p>The inclusionary zoning program applies to any residential project of 10 units or more that is:</p> <ol style="list-style-type: none"> 1. Financed by the City 2. On property owned by the City or Boston Redevelopment Authority or, 3. Requires zoning relief. <p>Projects are exempt if:</p> <ol style="list-style-type: none"> 1. 40% or more of the units within the development are income restricted or preserved as affordable. The project must also be financed as one entity. 2. The project is exempt in the zoning code or, 3. The project is used as a dormitory for students. 	<p><u>On-site:</u> 13% of the total number of units on-site is required to be affordable.</p> <p><u>In-lieu of on-site creation:</u> Depending on the geographic zone, developments can provide an inclusionary zoning contribution without relevant City Department approval. Some zones require City approval. The amounts required per unit are substantial, ranging between \$200,000-\$380,000 per unit</p> <p><u>Rental projects</u> can only meet inclusionary zoning requirements through a contribution approved by relevant City Departments.¹⁴</p> <p><u>Offsite:</u> The proposed project must provide affordable units that total either greater than 15% or 18% of the total number of unit, depending on the zone.</p> <p>Inclusionary zoning requirements can also be met through rehabilitation of affordable units.</p>	<p>30 years, right to renew for 20 years, and may seek up to 99 years by agreement</p>	<p>Rental Units- 70% of AMI or less In Zone C, up to 100% AMI by agreement</p> <p>Ownership Units- Half of the On-site units at 80% of AMI Half up to 100% AMI</p>	<p>Through the rezoning process, developers may seek relief from zoning provisions such as, density, height, setback, and coverage.</p> <p>Developers can also apply for financial relief through the City's Inclusionary Development Fund.</p>	<p><u>Federal LIHTC:</u> Tax credits are provided if the project has a minimum of 8 tax credit eligible units. Units receiving a tax credit must set aside:</p> <ol style="list-style-type: none"> 1. 20% or more units for families earning no more than 50% of AMI or; 2. 40% or more units for families earning no more than 60% of the AMI. <p>Additionally, 10% of the total units must be for households earning less than 30% of AMI</p> <p>State & Federal – Opportunity Zones Offers 100% Capital Gains exemption for development in designated lower income areas, Boston has thirteen zones</p>	<p>Meeting approximately 30% of the program goal.¹³</p> <p>Between 2000 – 2018 created 2,599 units (on & off site), of that number 546 were created in 2018.</p> <p>Over the 18 years developers have contributed \$137.1 million. Every \$1 of these funds leverages over \$5 of City, State, and Federal Funds to build additional units, and at even more affordable levels (19 percent of the units are at 30% AMI)</p>
<p>Chicago</p> <p>Mandatory, dependent on location.</p> <p>Last update in 2017.</p>	<p>10 or more units</p> <p>Requires rezoning, built on City land, receives financial assistance, or in a “planned” development in the Downtown area</p>	<p>10% of the Total Units on-site, 20% of the units if the project receives financial assistance from the City, minimum 2.5% of units MUST be provided on-site, the balance can be on-site, off-site, or cash-in-lieu</p> <p>Cash-in-lieu fees are calculated per unit based on location, rental, or ownership Fees range from \$50,000 to \$235,000 per unit If 2.5% of units built on-site are leased to Chicago Housing Authority on a long term lease, the fee for the remaining units is reduced by \$25,000/unit</p>	<p>30 years, or 99 years</p>	<p>Rental Units- 60% of AMI</p> <p>Ownership Units- 100% of AMI</p>	<p>Density bonusing, reduced development standards</p> <p>Fee Waivers</p> <p>Tax Increment Financing in prescribed Districts – Projects receiving TIF funds must have lower qualifying income levels for 10% of units -50% AMI for rental -80% AMI ownership</p>	<p>LIHTC allocates a 9%, or 4% federal income tax credit to developers that build and rehabilitate affordable housing.</p> <p>Federal – Opportunity Zones Offers 100% Capital Gains exemption for development in designated lower income areas, Chicago has 133 zones.</p>	<p>From 2003-2019 Inclusionary Zoning created 1,049 units and \$123.5 Million in lieu fees</p> <p>Critics complain the units are too expensive and too few have been created</p>

Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Levels	Offsets & Incentives	Public Subsidies Available	Outcomes
<p>Los Angeles</p>	<p>Voluntary Applies to rezoning applications</p>	<p>Applies to all rezoning applications regardless of size. Different mechanisms apply; Value Capture Ordinance Transit Oriented Communities Development within ½ mile of a Major Transit Stop/Station may qualify for a Density Bonus Complex set of policies with differentiation by mode of public transit (bus, rapid bus, regional rail, or subway), District Zoning, Type of Affordable Housing to be provided Provides density bonuses of up to 55% over base zoning, unit set asides range from 8% for Extremely Low Income units, up to 25% for Lower Income units Affordable Housing Linkage Fee (not an IZ mechanism but requires cash payment towards the Affordable Housing Trust for most developments, but not developments with prescribed min. number of affordable units by type) Fee ranges from \$3.11 - \$18.69 per sf, depending on development type and market area</p>	<p>Value Capture Ordinance; Allows 35% density increase if one of the following types of affordable housing is provided-</p> <ul style="list-style-type: none"> a. 11% Very Low Income Units b. 20% Low Income Units c. 40% Moderate Income Units in an ownership project <p>May allow even greater bonus density if-</p> <ul style="list-style-type: none"> d. For every 1% additional set aside of Very Low Income units, an additional 2.5% density e. For every 1% additional set aside of Low Income units, an additional 1.5% density f. For every 1% additional set aside of Moderate Income units for sale, an additional 1% density <p>Off-site construction-</p> <ul style="list-style-type: none"> -Within ½ mile of the site same number of units -Within 2 miles of the site increases by 1.25 times the number of units -Within 3 miles of the site increases by 1.5 times the number of units <p>Cash-in-lieu- Rental For projects receiving a density increase of more than 35% Studio \$53,233 1 Bedrm \$56,684 2 Bedrm \$62,891 3 Bedrm \$69,927 For projects where a land use conversion to residential occurs Studio \$76,735 1 Bedrm \$81,653 2 Bedrm \$90,583 3 Bedrm \$101,717 Ownership Must pay the affordability gap, calculated on a site by site basis based on local submarket conditions- From \$500 to \$400,000 per unit</p>	<p>55 years</p> <p>Very Low Income 50% of AMI Low Income 80% of AMI Moderate Income up to 150% of AMI</p>	<p>Through the rezoning process, developers may seek relief from zoning provisions such as, density, height, setback, and parking requirements.¹² State of California Density Bonusing for Affordable Housing projects can provide up to a 35% increase in residential density, must meet certain criteria and City must allow Waiver or reduction of fees and charges</p>	<p>Federal – LIHTC allocates a 9% federal income tax credit to developers that build and rehabilitate affordable housing, or a 4% federal income tax credit, differing criteria apply State & Federal – Opportunity Zones Offers 100% Capital Gains exemption for development in designated lower income areas, Los Angeles has 193 zones City -Grants or loans from Affordable Housing Trust for projects offering higher set asides or deeper affordability</p>	<p>From 2013-2019 LA saw approx. 139,000 new units of housing approved (not necessarily constructed), with approx. 11% or 15,700 units qualifying as affordable City Council currently considering Mandatory Inclusionary Zoning city-wide for all residential projects with an average set aside of 15%</p>

Policy Type	Threshold / Trigger	Extent of Obligation	Affordability Term	Affordability Level	Offsets & Incentives	Public Subsidies Available	Outcomes
<p>New York City</p> <p>Mandatory</p> <p>Updated in 2016 to replace voluntary programme</p>	<p>11 or more units in a designated Rezoned District, or when a rezoning is requested City-wide</p> <p>Projects between 11 and 25 units have the option to pay cash-in-lieu</p>	<p>City undertook rezoning of many districts to incentivize the provision of Inclusionary units</p> <p>Set aside rates of 20%-30% of residential GFA, depending on District and level of affordability provided units provided</p> <p>Allows for rental or ownership units to be provided</p> <p>Option to pay cash-in-lieu to Affordable Housing Fund Rates range from: \$230 to \$1165 /sq ft, depending on geographic location</p>	<p>30 years, up to Permanent</p> <p>(certain highly subsidised buildings will be subject to renewal of funding arrangements on expiry of term)</p>	<p>Option 1- 25% Set aside, 10% of units at 40%AMI, 15% at 60% AMI</p> <p>Option 2- 30% Set aside, all units at 80% AMI</p> <p>Option 3-(Workforce Option) 30% Set aside, 5% of units at 70% AMI 5% at 90% AMI 20% at 115% of AMI</p> <p>Option 4-(Deep Affordability Option) 20% Set aside, all units at 40% AMI -this option is dependent upon public funding or subsidies</p>	<p>Density Bonusing varies by District and underlying Zoning, ranges from 20% to 33%</p> <p>Relaxation of Development Standards (parking, setbacks)</p> <p>(City Council rejected many recommendations from Staff on the range and extent of density bonuses and relaxation of development standards, opting to preserve the status quo)</p> <p>Property Tax Exemption for up to 35 years</p> <p>Waiver of fees and charges</p> <p>Direct subsidies for deeper affordability projects</p> <p>Sale of Public Lands</p> <p>Transit Oriented Development qualifies for additional height and density</p>	<p>Federal - LIHTC allocates a 9%, or 4% federal income tax credit to developers that build and rehabilitate affordable housing, or a 4% federal income tax credit</p> <p>State & Federal – Opportunity Zones Offers Capital Gains exemption for development in designated lower income areas, New York City has 306 zones</p> <p>State-Affordable New York Housing Program offers property tax exemption for qualifying rental projects for up to 35 years</p> <p>State/Municipal -Tax exempt Bond Financing</p>	<p>Voluntary Inclusionary Housing</p> <p>2005-2013 2,888 units from 15,310 new units built in IH districts</p> <p>2014-2019 8,476 units from 181 Projects</p> <p>(projects rezoned prior to 2016 are grandfathered and not subject to Mandatory requirements, but can receive incentives under the Voluntary programme)</p> <p>Mandatory Inclusionary Housing</p> <p>2016-2019 2,065 from 38 projects</p> <p>Mayor’s Goal is for Mandatory Inclusionary Housing for 2016 -2024 is to produce at least 12,000 units</p>

Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Levels	Offsets & Incentives	Public Subsidies Available	Outcomes										
<p>Portland</p> <p>Mandatory Applies to all residential development</p> <p>Current Program adopted in 2017</p>	<p>Applies to all new residential projects of 20 units or more.</p> <p>City-wide, but certain central districts require higher contributions</p>	<p>Developers have the option to choose one of five contribution models;</p> <p>Unit set aside rates;</p> <p>-OPTION 1 (City-wide) On-site 15%, must be affordable at 80% Median Family Income (FMI)</p> <p>Central City Plan District & Gateway Plan District On Site 20%, at 80% FMI</p> <p>-OPTION 2 (City Wide) On-site 8%, at 60% FMI</p> <p>Central City Plan District & Gateway Plan District On-site 10%, at 60% FMI</p> <p>-OPTION 3 (City Wide & Districts) Off-site 20%, at 60% FMI, or Off-site 10%, at 30% FMI</p> <p>-OPTION 4 Affordable Housing Fee calculated on the GFA applied to the applicable percentage of the project;</p> <p>City-wide \$19.00 per sf of residential GFA (before Dec 31, 2020) \$23.00 per sf of residential GFA (after Dec 31, 2020)</p> <p>Central & Gateway Districts \$27.00 per sf of residential GFA</p> <p>-OPTION 5 Designate Existing Units 25% at 60% FMI, or 15% at 30% FMI -these units must be comparable in size to the new units that would otherwise be built</p> <p>In all projects 5% of the affordable units must be accessible</p>	<p>99 years</p>	<p>When units are provided the following affordability levels are to be met by project type;</p> <p>-OPTION 1 (City-wide) On-site 15%, must be affordable at 80% Median Family Income (FMI)</p> <p>Central City Plan District & Gateway Plan District On Site 20%, at 80% FMI</p> <p>-OPTION 2 (City Wide) On-site 8%, at 60% FMI</p> <p>Central City Plan District & Gateway Plan District On-site 10%, at 60% FMI</p> <p>-OPTION 3 (City Wide & Districts) Off-site 20%, at 60% FMI, or Off-site 10%, at 30% FMI</p> <p>-OPTION 5 Designate Existing Units 25% at 60% FMI, or 15% at 30% FMI</p>	<p>Through the rezoning process, developers may seek relief from zoning provisions such as, density, height, setbacks.</p> <p>Reduced parking requirements for affordable units.</p>	<p>Federal - LIHTC allocates a 9% federal income tax credit to developers that build and rehabilitate affordable housing, or a 4% federal income tax credit, differing criteria apply¹⁹</p> <p>State & Federal – Opportunity Zones Offers 100% Capital Gains exemption for development in designated lower income areas</p> <p>Municipal – 10 year property tax exemption on affordable units (City-wide)</p> <p>In Central City Plan District, 10 year property exemption on all residential units in buildings with density of 5.0x or greater</p> <p>Construction Excise Tax exemption on affordable units</p> <p>Development Charges waived for all units at 60% of FMI</p>	<p>Portland's 2035 Comprehensive Plan sets a goal of producing 10,000 regulated affordable housing units</p> <p>Since 2017 119 Development Projects totalling 7,309 new housing units are delivering 780 Inclusionary Housing Units</p> <p>The units committed to date; 56% are at 60% MFI 44% are at 80% MFI</p> <table border="1"> <tr> <td>Studio</td> <td>39.4%</td> </tr> <tr> <td>1 Bedrm</td> <td>35.9%</td> </tr> <tr> <td>2 Bedrm</td> <td>13.4%</td> </tr> <tr> <td>3 Bedrm</td> <td>8.5%</td> </tr> <tr> <td>4 Bedrm</td> <td>0.7%</td> </tr> </table> <p>98% Rental 2% Ownership</p> <p>Currently 92 projects subject to Inclusionary Zoning are in the approval process, with a potential 14,700 new housing units</p>	Studio	39.4%	1 Bedrm	35.9%	2 Bedrm	13.4%	3 Bedrm	8.5%	4 Bedrm	0.7%
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1 Bedrm	35.9%																
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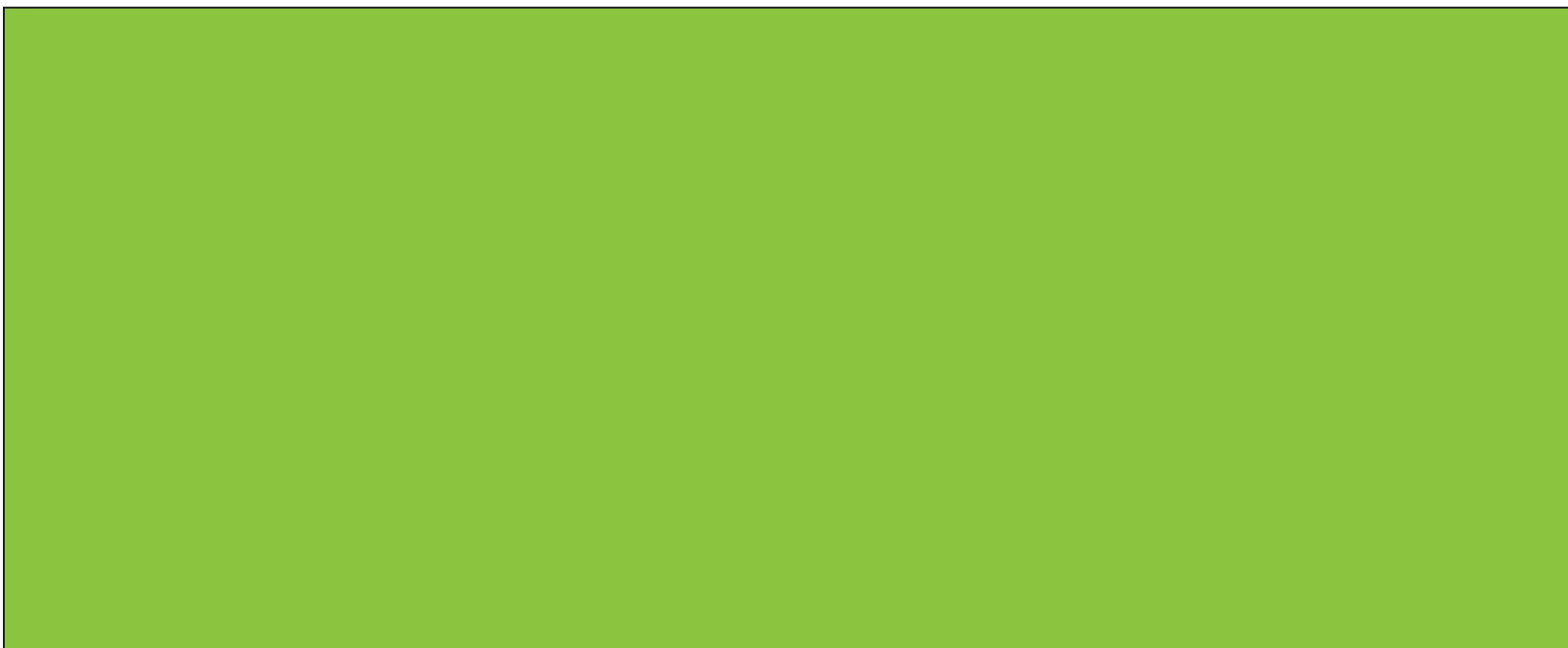
Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Levels	Offsets & Incentives	Public Subsidies Available	Outcomes
<p>San Francisco</p> <p>Mandatory Applies to all residential development</p> <p>Current Program adopted in</p> <p>First introduced in 1992</p>	<p>Applies to all new residential projects of 10 units or more.</p> <p>City-wide, but certain central districts require higher contributions</p> <p>Differing contribution rates for; -Small Projects (10 to 24 units) -Large Projects, Rental (25+units) -Large Projects, Ownership (25 or more units)</p>	<p>Developers have the option to choose one of five contribution models;</p> <p>-Provide Below Market Rate units on-site -Provide Below Market Rate units off-site -Pay a fee in lieu of providing units -Dedicate land for affordable housing Or a combination of the above</p> <p>Unit set aside rates;</p> <p>-Small Projects (10 to 24 units) On-site 13% Off-Site 20% -Large Projects, Rental (25+units) On-site 20.5% Off-site 30% -Large Projects, Ownership (25 or more units) On-site 22.5% Off-site 33%</p> <p>Affordable Housing Fee calculated on the GFA applied to the applicable percentage of the project;</p> <p>\$199.50 per sf of residential GFA (2019 indexed amount) times,</p> <p>-Small Projects (10-24 units) 20% of residential GFA -Large Projects, Rental (25+ units) 30% of residential GFA -Large Projects, Ownership (25+units) 33% of residential GFA</p> <p>An application for rezoning may result in higher set aside rates</p>	<p>Permanent</p>	<p>When units are provided the following affordability levels are to be met by project type;</p> <p>-Small Project (10-24 units) 13% of units at 55% AMI for rental or 13% of units at 80% AMI for ownership</p> <p>-Large Project, Rental (25+ units) 12% of units at 55% AMI 4.25% of units at 80% AMI 4.25% of units at 110% AMI</p> <p>-Large Project, Ownership (25+units) 12% of units at 80% AMI 5.25% of units at 105% AMI 5.25% of units at 130% AMI</p> <p>For rental units, rents should not exceed 30% of household income</p>	<p>Through the rezoning process, developers may seek relief from zoning provisions such as, density, height, setback, and parking requirements.¹²</p> <p>State of California Density Bonusing for Affordable Housing projects can provide up to a 35% increase in residential density, must meet certain criteria and City must allow</p> <p>City- HOME SF Density Bonus Program for projects providing deeper level of affordability, can be combined with State Density Bonuses</p>	<p>Federal – LIHTC allocates a 9% federal income tax credit to developers that build and rehabilitate affordable housing, or a 4% federal income tax credit, differing criteria apply</p> <p>State & Federal – Opportunity Zones Offers 100% Capital Gains exemption for development in designated lower income areas, San Francisco has eleven zones</p>	<p>From 1992-2008 produced 1096 units from 133 developments and \$17 million in fees. 72% were ownership units, 28% rental</p> <p>From 2014-2018 a total of 1,586 inclusionary units were completed, and \$ 355.1 Million in fees was collected</p> <p>In 2018, 26 projects subject to the IZ requirements were completed with a total of 2450 units, 15 projects provided 163 of on-site and off-site IZ units, and</p> <p>\$53.1 Million in Fees was collected (a 49.5% decline from the previous year and the lowest amount in 4 years)</p>

Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Levels	Offsets & Incentives	Public Subsidies Available	Outcomes	
Seattle	Mandatory In 2017 Mandatory Affordable Housing (MAH) replaced Incentive Zoning (IZ), which had been in place since 2001	1 new residential unit. and/or Over 4,000 sf of new commercial space.	Varies by District and amount of extra height and density. Taken as a % of GFA Medium Market Areas 6% - 10% Strong Market Areas 7% - 11% Downtown up to 15% Cash-in-lieu ranges from \$ 6.00 - \$ 35.75 / sf (in US dollars, 2019 rates) Obligation can be provided on-site, off-site, as a combination of units & cash-in-lieu, or cash-in-lieu	50 years, for Produced Units	40% - 60% of AMI, for Produced Units 30% - 60% of AMI, for units created with Cash-in-lieu funds Any costs to maintain long-term affordability of the constructed units is mainly borne the municipality as few units are retained by private developers.	Increased height and density, relaxed development standards.	State – Multi-Family Tax Exemption, a 12 year property tax exemption on rent restricted/affordable units (cost borne by municipality) Federal - LIHTC allocates a 9% federal income tax credit to developers that build and rehabilitate affordable housing, or a 4% federal income tax credit, differing criteria apply ¹⁹ State & Federal – Opportunity Zones Offers Capital Gains exemption for development in designated lower income areas, covers almost 27% of Seattle.	<p>Fails to generate affordable units at the prescribed rate from most projects.</p> <p>Acts as a revenue source for Seattle to fund the construction of affordable housing on its own or with non-profits partners.</p> <p>From 2001-2016, Incentive Zoning secured 128 units across 25 development projects that totalled 2,162 units. Collected \$ 87 Million cash-in-lieu payments.</p> <p>Current Goal to achieve 6,000 units between 2017-2035.</p> <p>In 2019 MAH delivered 64 units from 5 projects totalling 684 units, collected \$15.6 Million cash-in-lieu.</p> <p>Most projects in the approvals process in 2019 opted for cash-in-lieu, future year commitments of approx.. \$100 Million.</p>
Washington	Voluntary, Required on rezoning. Last update in 2016	10 or more units, or the addition of 10 new units to an existing building that increases the building's residential floor space by 50% or more.	Between 8 to 10% of the square footage of a building in an inclusionary zone is required for affordable units or 50-75% of the bonus density. This varies depending on construction types and zone district.	Permanent	Rental Units – 60% MFI Ownership Units – 80%MFI Households to not spend more than 50% of their income on housing costs	Density bonusing and tax relief. Developers may receive a density bonus of up to 20% in FAR if they meet affordability requirements.	<p>LIHTC allocates a 9%, or 4% federal income tax credit to developers that build and rehabilitate affordable housing.</p> <p>Federal – Opportunity Zones Offers 100% Capital Gains exemption for development in designated lower income areas, Washington DC has twenty-five zones.</p>	<p>From 2009-2019 Inclusionary Zoning created 989 units from 128 contributing developments</p> <p>In 2019 196 units were created from 26 contributing projects.</p> <p>Since the program was overhauled in 2016 the average annual production has been 194 units.</p> <p>Proposed additional changes in 2020 to relax zoning restrictions in more neighbourhoods may increase average production in future years.</p>

OFFSETS & INCENTIVES – AT A GLANCE COMPARISON OF TORONTO & OTHER CITIES

City or Town	Density Bonus	Reduced Development Standards	Development Charges Reduction/Waiver	Other Fees & Charges Reduction/Waiver	Property Tax Reduction/Waiver	Other Incentives
Toronto (proposed)	<ul style="list-style-type: none"> NO Only as a result of a formal Zoning Bylaw Amendment 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> National Housing Strategy Loans & Grants Provincial and Municipal loans and grants
Montreal	<ul style="list-style-type: none"> YES 	<ul style="list-style-type: none"> YES, reduced parking standards 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> National Housing Strategy Loans & Grants Provincial and Municipal loans and grants Sale of Public lands
Vancouver	<ul style="list-style-type: none"> YES, varies by district Eligible Purpose-Built Rental projects receive density bonus without rezoning 	<ul style="list-style-type: none"> YES, reduced parking standards 	<ul style="list-style-type: none"> YES, Development Charges waived for the IZ units Waived Development charges on entire Rental Project 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> National Housing Strategy Loans & Grants Provincial and Municipal loans and grants
Boston	<ul style="list-style-type: none"> NO Only as a result of a formal Zoning Bylaw Amendment 	<ul style="list-style-type: none"> NO Only as a result of a formal Zoning Bylaw Amendment 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> Federal Low Income Housing Tax Credit (4% or 9%) Opportunity Zone Tax Credit Eligible for Federal, State, Municipal Housing Funds
Chicago	<ul style="list-style-type: none"> YES, varies by district 	<ul style="list-style-type: none"> YES, reduced parking standards relaxed Setback requirements 	<ul style="list-style-type: none"> YES 	<ul style="list-style-type: none"> YES 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> Federal Low Income Housing Tax Credit (4% or 9%) Opportunity Zone Tax Credit Eligible for Federal, State, Municipal Housing Funds Tax Increment Financing in certain districts for qualifying rental and ownership units
Los Angeles	<ul style="list-style-type: none"> YES, varies by district Statewide mandated density bonuses for Affordable Housing, up to 35% bonus without rezoning Municipal Transit Oriented Communities, up to 55% bonus without rezoning 	<ul style="list-style-type: none"> YES, reduced parking standards relaxed Setback requirements 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> Affordable Housing Linkage Fee, Reduced or waived on affordable units 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> Federal Low Income Housing Tax Credit (4% or 9%) Opportunity Zone Tax Credit Eligible for Federal, State, Municipal Housing Funds
New York City	<ul style="list-style-type: none"> YES, varies by district Range of 20%-33% Certain Transit Oriented Developments may qualify for additional density 	<ul style="list-style-type: none"> YES, reduced parking standards relaxed Setback requirements 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> YES 	<ul style="list-style-type: none"> 100% Property Tax Waiver on entire Rental Project for 35 years 	<ul style="list-style-type: none"> Federal Low Income Housing Tax Credit (4% or 9%) Opportunity Zone Tax Credit Eligible for Federal, State, Municipal Housing Funds Tax Exempt Bond Financing Provide Public lands Subsidies for deep affordability units
Portland	<ul style="list-style-type: none"> NO Only as a result of a formal Zoning Bylaw Amendment 	<ul style="list-style-type: none"> YES, reduced parking standards 	<ul style="list-style-type: none"> Development Charges waived on all units targeting 60% FMI, and below 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> 100% Property Tax Waiver for 10 years on affordable units 	<ul style="list-style-type: none"> Federal Low Income Housing Tax Credit (4% or 9%) Opportunity Zone Tax Credit Eligible for Federal, State, Municipal Housing Funds Waived State Construction Excise Tax of \$1.35/sf of Residential GFA
San Francisco	<ul style="list-style-type: none"> YES, varies by district Statewide mandated density bonuses for Affordable Housing, up to 35% bonus without rezoning Municipal HOME SF, additional density bonus can be combined with State bonus 	<ul style="list-style-type: none"> NO Only as a result of a formal Zoning Bylaw Amendment 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> Federal Low Income Housing Tax Credit (4% or 9%) Opportunity Zone Tax Credit Eligible for Federal, State, Municipal Housing Funds
Seattle	<ul style="list-style-type: none"> YES, varies by district 	<ul style="list-style-type: none"> YES, reduced parking standards relaxed Setback requirements 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> 100% Property Tax Exemption for certain Multi-Family Developments for 12 years 	<ul style="list-style-type: none"> Federal Low Income Housing Tax Credit (4% or 9%) Opportunity Zone Tax Credit Eligible for Federal, State, Municipal Housing Funds
Washington DC	<ul style="list-style-type: none"> YES, varies by district Up to 20% density bonus without rezoning 	<ul style="list-style-type: none"> YES, reduced parking standards relaxed Setback requirements 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> NO 	<ul style="list-style-type: none"> Property Tax Waiver on affordable units for 30 years 	<ul style="list-style-type: none"> Federal Low Income Housing Tax Credit (4% or 9%) Opportunity Zone Tax Credit Eligible for Federal, State, Municipal Housing Funds

**Affordable Housing in the
City of Toronto - A Responsibility We All Share**
Appendix B



The City of Toronto

Update:
**Evaluation of Potential Impacts of an
Inclusionary Zoning Policy**

May 2020

nblc

N. Barry Lyon Consultants Ltd.

The City of Toronto

**Update:
Evaluation of Potential Impacts of an
Inclusionary Zoning Policy**

Table of Contents

Executive Summary ii

1.0 Introduction..... 1

2.0 Housing Prices and Costs – Fundamental Factors 2

3.0 Market Context 7

4.0 The Conceptual Inclusionary Zoning Policy 10

5.0 Approach to Assessing Impacts 14

6.0 Analysis..... 23

7.0 Conclusions..... 30

Disclaimer:

The conclusions contained in this report have been prepared based on both primary and secondary data sources. NBLC makes every effort to ensure the data is correct but cannot guarantee its accuracy. It is also important to note that it is not possible to fully document all factors or account for all changes that may occur in the future and influence the viability of any development. NBLC, therefore, assumes no responsibility for losses sustained as a result of implementing any recommendation provided in this report.

This report has been prepared solely for the purposes outlined herein and is not to be relied upon, or used for any other purposes, or by any other party without the prior written authorization from N. Barry Lyon Consultants Limited.

Executive Summary

The City of Toronto has retained N. Barry Lyon Consultants Limited (NBLC) to prepare an update to its Evaluation of Potential Impacts of an Inclusionary Zoning (IZ) Policy in the City of Toronto, completed in May of 2019. This document serves as an addendum to the May 2019 analysis by updating key market and cost parameters in the analysis and by testing revised policy parameters. As part of this updated assessment NBLC has been directed to test impacts from IZ when the policy is applied to a percentage of total development yield. This report should be read in conjunction with our original study.

Of note, this analysis was completed without the benefit of a finalized regulatory framework pursuant to Bill 108 and prior to legislative changes introduced through Bill 197. With direction from City staff we have therefore made certain assumptions with respect to municipal fees and charges in this work. Further review may be required once the regulations have been implemented, along with any emerging Community Benefits Charge by-law that may be implemented by the City of Toronto. Moreover, market impacts flowing from COVID-19 are affecting Toronto's housing market and will likely influence housing market conditions in the near term (market data and assumptions in this update were developed in February and March of 2020). We assume that once the impacts of COVID-19 are shed, the housing market will return to normalcy.

Approach

To undertake our assessment, we assume that the IZ policy would have the following key elements:

- The policy framework considers the implications for development if a developer were to pursue land acquisition and development under various market conditions throughout the City. In each case we assume, as part of the development approval, a portion of the development would be “set aside” for affordable housing.
- A range of affordable unit requirements are tested, starting with a set-aside rate of 10% of all residential GFA in a building, then testing impacts with a 20% set-aside rate for each test area. These tests are conducted assuming a base land value (calculated based on the “existing use or as-of-right” zoning).
- This testing is completed based on costs associated with current planning policy as it relates to Section 37 and Section 42 of the Planning Act. In addition, a sensitivity analysis is also included which attempts to mimic the emerging Community Benefits Charge (CBC) framework that was introduced through Provincial Bill 108. In this case, a 15% CBC rate is

assumed (which includes parkland), however no adjustments to development charge rates were made.

- This testing is intended to provide a basis of evidence for future decision making, with set-aside rates, depth of affordability and length of affordability established by City staff for the purposes of modeling.
- No offsets such as tax incentives or bonus development density were considered in this testing.

The following table outlines the updated IZ permutations considered as part of this assessment:

Key Variables:	Current Planning Policy		Emerging CBC Framework	
	Lower Set-Aside	Higher Set-Aside	Lower Set-Aside	Higher Set-Aside
Set-Aside Rate % of Total GFA	10%	20%	10%	20%
Depth of Affordability for IZ Units	80% AMR	80% AMR	80% AMR	80% AMR
Period of Affordability	99-Years	99-Years	99-Years	99-Years

As described in our May 2019 analysis, the City of Toronto is comprised of diverse submarkets. This evaluation therefore considers the potential impacts of a potential of the feasibility of high density residential development in 11 locations along existing/ planned transit. The following summarizes our methodology:

- Submarket areas were selected around existing higher order transit, or emerging market areas with existing and/ or planned higher order transit infrastructure improvements.
- In each of the 11 submarkets we develop prototypical development concepts based on the as-of-right density and the added density, in consultation with City staff, that might be approved in a rezoning application.
- We tested a market rental and an ownership (condominium) project in each submarket.
- For each submarket we undertake research to assess local pricing dynamics which are used to develop a residual land value model (RLV). The RLV model assesses all the project revenues. From these revenues we subtract the costs of development including the developer’s profit. What remains is land value.

- We estimate the existing land value given (underutilized) land uses and as-of-right zoning to estimate “as-is, where-is” land value for each prototype site as a baseline.
- We then evaluate the land value based on the conceptual development scenarios at market rates, and also with the IZ policy variations presented earlier.
- If the land value of the development scenario, with the IZ requirements, is not 10% greater than the existing land value, we assume the policy would not be feasible. (Under this circumstance we assume that the owner of the land would not be motivated to sell for high density residential purposes). However, if the resulting land value, with IZ policies considered, remains at least 10% greater, there is a viable Inclusionary Zoning policy outcome.

Findings

The majority of Toronto’s residential apartment development is found within the downtown, the Yonge Corridor, the waterfront areas and in North York along the Subway lines. These areas have very strong market fundamentals and the testing conducted throughout this study shows evidence that that the land market should have capacity to absorb the impact of potential IZ policy without jeopardizing development viability. Following are other key findings from this evaluation:

- The primary impact of an IZ policy is to reduce the development revenue from a project. When revenues are decreased, the amount a developer can pay for land decreases. When land value is reduced below that of the existing use of the land, the motivation for the land to be redeveloped, and for housing to be created, is similarly reduced and investment potential undermined.
- In weaker suburban market areas, where revenues are already low, or in areas where the available density is modest, an IZ policy could have a negative impact on investment and the production of housing. The research illustrates that in stronger market areas the potential for a successful IZ policy is greater.
- Our work illustrates the highly variable market conditions for development across the City for both condominium and purpose-built rental projects. The feasibility for IZ varies depending on the tenure, the location, the site conditions and allowable density. Condominium developments, for example, typically have more ability to absorb an IZ policy than purpose-built rental. Applying the same policy that might be viable in downtown Toronto to a weaker market area could discourage new investment.
- A long-term IZ policy approach would allow land markets to adjust and developer expertise to grow. As the high-density residential submarkets in Toronto continue to mature, there is potential to create significant amounts of affordable housing over time. However, it will be important to gradually introduce and ‘ramp up’ IZ expectations as these markets adjust.

- A key issue to anticipate is the timing of when land was purchased. If, for example, land was purchased in 2019 and a policy was introduced in 2020, the 2019 price would not have accounted for the reduced revenue impacts associated with IZ. This could create financial hardship in the development community and discourage the creation of new housing stock.
- In weaker market areas where reinvestment and new affordable housing is an objective, targeted financial incentives – potentially through Community Improvement Plan(s) – could mitigate adverse near-term impacts by offsetting the reduction in revenue caused by affordable unit requirements.
- If an aggressive IZ policy was applied in weaker market areas without offsets such as density increases or tax incentives IZ policies could have negative impacts on affordability in two inter-related ways:
 - By eroding the feasibility of projects, thus reducing the supply of housing, which at a macro level can put upward pressure on net demand (and pricing) of available units; and,
 - Assuming land values cannot be reduced below the base land value, the cost of delivering an entry-level apartment unit would increase.
- Another important consideration in order to mitigate unintended consequences of this nature would be to develop the policy alongside a framework for transition. An implementation approach that phases-in the implementation of IZ would allow for ongoing market monitoring and create time for markets to adjust.

Recommendations

Inclusionary Zoning presents a long-term policy opportunity which could yield a new supply of affordable housing units for the City. Introducing IZ now – even at low set-aside rates – including in weaker high-density submarkets, may mean that it takes longer for new development to occur (without counteractive intervention, in the form of financial incentives, for instance). However, with a longer-term policy vision in place, the early introduction of IZ is beneficial because it sets a standard for doing business that will be priced into future market activity. As the City of Toronto considers a potential IZ policy, we offer the following recommendations:

- Develop the IZ framework alongside clear development entitlements in each MTSA. A successful IZ policy requires a measure of clarity in station area plans to form the basis by which land values are established.
- The City should consider whether each MTSA could have different set-aside rates to allow for market variances as it relates to the percentage affordability and allowable densities determined through MTSA planning processes. Generally speaking, set-aside rates can increase with allowable densities.

- IZ policies must acknowledge the varied characteristics of local submarkets. These measures in weaker market zones could include Community Improvement Plans or other focused public investments such as new transit, parks or community facilities that help improve the market appeal of the area.
- The City could consider implementing a framework to allow for the IZ policy to be amended or waived in instances where developers can demonstrate a lack of feasibility (e.g. in purpose-built rental apartment scenarios) and/ or where other significant community benefits are being provided.
- The City should consider a phase in period starting with a low IZ set-aside rate with specified (e.g. annual) increases; and/ or an announcement to the market that the IZ policy will come into force in a certain period of time (e.g. as MTSA plans are implemented). Both approaches would allow markets to adjust and for sites which are currently in pre-development stages to proceed, allowing new development lands to be priced accordingly.
- IZ policies should consider whether rules about who owns and operates the units and maintains oversight of the depth and duration of affordable as well as the unit types are necessary. This represents a next step for the City as it consults with council and stakeholders, beginning to frame a preferred policy approach.
- The IZ policy should be revisited at regular intervals to ensure that the policy is nimble and able to adjust to the economic realities of the day. Of note, this analysis was completed without fully phased in Community Benefits Charge policies relating to Bill 108 and Bill 197. Moreover, at the time of drafting this report considerations relating to novel coronavirus COVID-19 are impacting global markets. Illustrations of policy and market fluctuations like this emphasize the need for flexibility and regular monitoring of potential IZ policies throughout the City.

This analysis cannot assume the wide variations of market factors and the interests of developers and landowners. For example, the analysis does not consider landowners of shopping centres who have marginal or no land costs or developers that might accept a lower rate of return. The results therefore should be considered at a high level and used to provide general direction in developing IZ policies. Further review or consideration could be warranted once MTSA plans are advanced and as market conditions evolve.

1.0 Introduction

The City of Toronto has retained N. Barry Lyon Consultants Limited (NBLC) to prepare an update to its Evaluation of Potential Impacts of an Inclusionary Zoning (IZ) Policy in the City of Toronto, completed in May of 2019. This report serves as an addendum to the May 2019 analysis by updating key market and cost parameters in the analysis and by testing revised potential policy parameters. This report should be read in conjunction with our original study.

The Province of Ontario has adopted legislation that will allow the creation of affordable housing through Inclusionary Zoning techniques. The City of Toronto is actively developing strategies to address housing affordability; part of this work includes evaluating the potential City-building benefits of Inclusionary Zoning. As part of this review, the Provincial Regulations require that municipalities evaluate the potential impacts of an IZ policy on development viability.

Most of the policy experience with IZ has been in the United States. In most jurisdictions where IZ has been successfully implemented, the central principal is that development density is traded to offset the costs of delivering affordable housing. In some instances, there are also offsetting financial programs (tax incentives, etc.). But it is this exchange of added density for affordable units that has underpinned the success of these policies. Notwithstanding this, as part of this updated assessment NBLC has been directed to test impacts from IZ when the policy is applied to a percentage of total development yield.

This update to our May 2019 study reviews the possible impact of a potential IZ policy using market research and a financial model to consider the land value implications for developers that would need to acquire land in today's market in order to proceed with a development. Achievable development density and market dynamics are established for a range of market locations throughout the City in order to consider the nuance of varying market dynamics. Through an understanding of the subtleties between various submarkets, we examine how the impact of providing affordable housing in market development could impact the viability of a typical project.

Of note, this analysis was completed without the benefit of a detailed regulatory framework related to Community Benefits Charges (CBCs) pursuant to Bill 108 and Bill 197. At the time of writing, a proposed Community Benefits Charge approach had been tabled and was subject to ongoing consultation. Further review of this evaluation could be warranted once final regulations are implemented. This analysis considers existing development charge and parkland acquisition policies in place today, as well as an adjustment to soft costs which might occur through the implementation of a CBC by-law.

In addition, impacts flowing from the response to novel coronavirus COVID-19 are affecting Toronto's housing market and will negatively influence market conditions in the near term (market data and assumptions in this update were developed in February and March of 2020). However, we remain optimistic about Toronto's resiliency and recovery.

2.0 Housing Prices and Costs – Fundamental Factors

As discussed in NBLC’s May 2019 analysis, the effect of an IZ policy would be to exchange the additional density achieved on a site through a planning application process for affordable housing units. This would reallocate a portion of a residential development’s yield to affordable housing, decreasing available project revenue.

2.1 Factors Influencing the Price of Housing

The highest and best use of a site is established by determining the most marketable housing types, pricing, product positioning (e.g. mid-market, luxury), sales absorption rates or lease-up rates, target purchasers and marketable suite mix, required project amenities, and other similar items. Often, these inputs feed into a financial analysis to evaluate project viability, land value, and profit. When deciding how to price housing, it is important to consider both demand and supply conditions in the local market area.

Ultimately, developers are seeking to determine the maximum they can charge purchasers or renters and still sell or lease-up their project within a predetermined time frame. If a developer sells or leases very few homes, this is generally a sign that pricing was too high for the project (or some other project flaw). Conversely, if the entire project sells out immediately, the developer may have been able to charge more for the product.

Developers carefully examine supply and demand to ensure this does not happen. Instead, the industry seeks to ensure that projects charge the maximum price that the market will bear while still maintaining a healthy sales absorption pace. Developers will also monitor supply and demand conditions throughout a sales campaign, often increasing pricing throughout the process at specific thresholds (e.g. at the beginning of construction). Some developers also may not release all units to the market at the same time, later adjusting pricing or other elements based on the market’s response to an initial release. This is an important consideration, as developers can – and often do – increase pricing if the market supports such an increase. This adjustment to pricing is independent of any shift in development costs.

An IZ policy would have the effect of reducing the amount of revenue that can be attributed to a development project due to the affordability requirements for a proportion of the units in a residential development. In other words, costs increase as a proportionate share of revenue.

2.2 Factors that Influence the Cost of Housing

The delivery cost of housing sets the minimum price a home can be sold for. If market pricing falls below this benchmark, the project is not constructed.

The costs of building housing generally fall into one of four discrete categories:

- Hard Construction Costs
- Soft Development Costs
- Developer Profit
- Land Costs

Hard construction costs encompass all the materials and labour required to physically construct a building. Hard construction costs will vary from project to project as factors such as topography and grading, geotechnical issues, site contamination, building materials (e.g. concrete vs wood), the height of a building, surface vs. underground parking, and other similar considerations can all impact construction costs. Soft development costs include all the other costs that a developer will encounter when developing real estate. These items include government-imposed development charges and policies, as well as a host of other costs including, consultants, financing costs, and commission fees.

Hard construction costs are dictated by the market, albeit a different market than house prices. Developers will purchase building materials like any other commodity, which are subject to fluctuations in price. Macro-economic trade impacts (e.g. steel tariffs) can also impact the price of materials and other commodities. Labour demand and supply conditions (e.g. competition) also affect hard costs and fluctuations. Overall, once the specifics of a development project are well defined, hard construction costs become relatively fixed.

Like hard costs, soft development costs can also shift depending on the specifics of a development project. Factors such as project scale and absorption rates can impact development timing, which can affect financing and other carrying costs. These costs can also vary depending on the approvals required, size of the property, value of the land (cash in lieu of parkland), the Section 37 agreement negotiated, changes to development charges, and others.

Refinements to the Planning Act through the implementation of a Community Benefits Charge (CBC) framework may further impact the way soft costs are calculated in a developer's proforma. Further updates to this analysis should be considered once final regulations are implemented the City begins to develop CBC By-laws.

Developers require a certain profit threshold to undertake a development project. They are investing their skills and equity, as well as taking on significant risk in order to make a profit that is superior to the rate of return that might be achievable through another investment vehicle. If an acceptable profit margin cannot be achieved, developers will seek development opportunities in other markets, invest in other real estate asset classes, or choose another investment vehicle altogether.

The value of land is directly connected to the market strength of an area. Typically, strong market areas support higher land values than weaker market areas.

2.3 Increased Costs Primarily Impact Land Values

Understanding that pricing (revenue) is largely independent from costs, developers must seek to transfer additional costs to others in order to mitigate risk and maintain appropriate returns. Developers are investing their skills, time and equity to make a profit. If an acceptable profit level cannot be achieved by passing on costs, they will either invest in a new community, delay development or select another investment vehicle. Therefore, where costs increase – or revenues decrease, in the case of IZ – a proportional increase in pricing or decrease in land value must occur to keep a project viable.

In a market that has demonstrated gradual improvements to high density residential pricing, it is possible that impacts associated with IZ will be absorbed over time, without impacting the viability of development, or land values. However, in markets where price growth is not strong, with return expectations and costs relatively fixed or inflating in parallel, the impact of a revenue decrease is largely compensated for in land value.

The only exception to this is where the cost increase occurs after the land acquisition has occurred. In which case, a developer either: accepts a lower return; delays the project until the market is more favourable; or, cancels the project.

2.4 Understanding Land Values for High Density Projects

Accurately assessing the land value for high density residential development is based on two fundamental inputs: revenues and expenses. Project revenues are driven by the sale or rental value of homes as well as other sources such as parking spaces, storage lockers, and ground-floor commercial space within an apartment building. As illustrated by **Figure 1**, developers will then subtract all development hard and soft costs, as well as their required profit from the estimated revenue of the project. The remaining amount, or residual amount, is referred to as the Residual Land Value (RLV). The RLV represents the theoretical maximum price a developer could pay for the land to construct the housing project and make an attractive profit.

The RLV will result in one of two scenarios:

- **RLV is equal to or higher than the asking price of land in the market:** If the RLV of a proposed development is greater than the asking price of the land in the market, a developer can, in theory, purchase the land and build the project while meeting their profit expectation.
- **RLV is below the asking price of land in the market:** In this situation, the housing development would not be considered viable because a developer could not pay the asking price of land and still maintain their minimum profit margin.

If revenue decreases (or costs increase, as they do on a percentage basis compared to revenue, in the case of an IZ scenario), the amount subtracted from the project’s revenue will also increase, which results in a lower RLV. In other words, the developer would pay less for the development site because costs have increased.

The RLV is impacted because the other elements of the equation (**Figure 1**) are generally fixed. Developers are not likely to reduce their profit expectation as discussed earlier in this report. Developers also cannot simply increase the price of homes beyond what the market will support. If the market does support an increase in the price of new homes, developers are likely to increase pricing regardless of any change in costs.

Figure 1

Understanding Residual Land Value

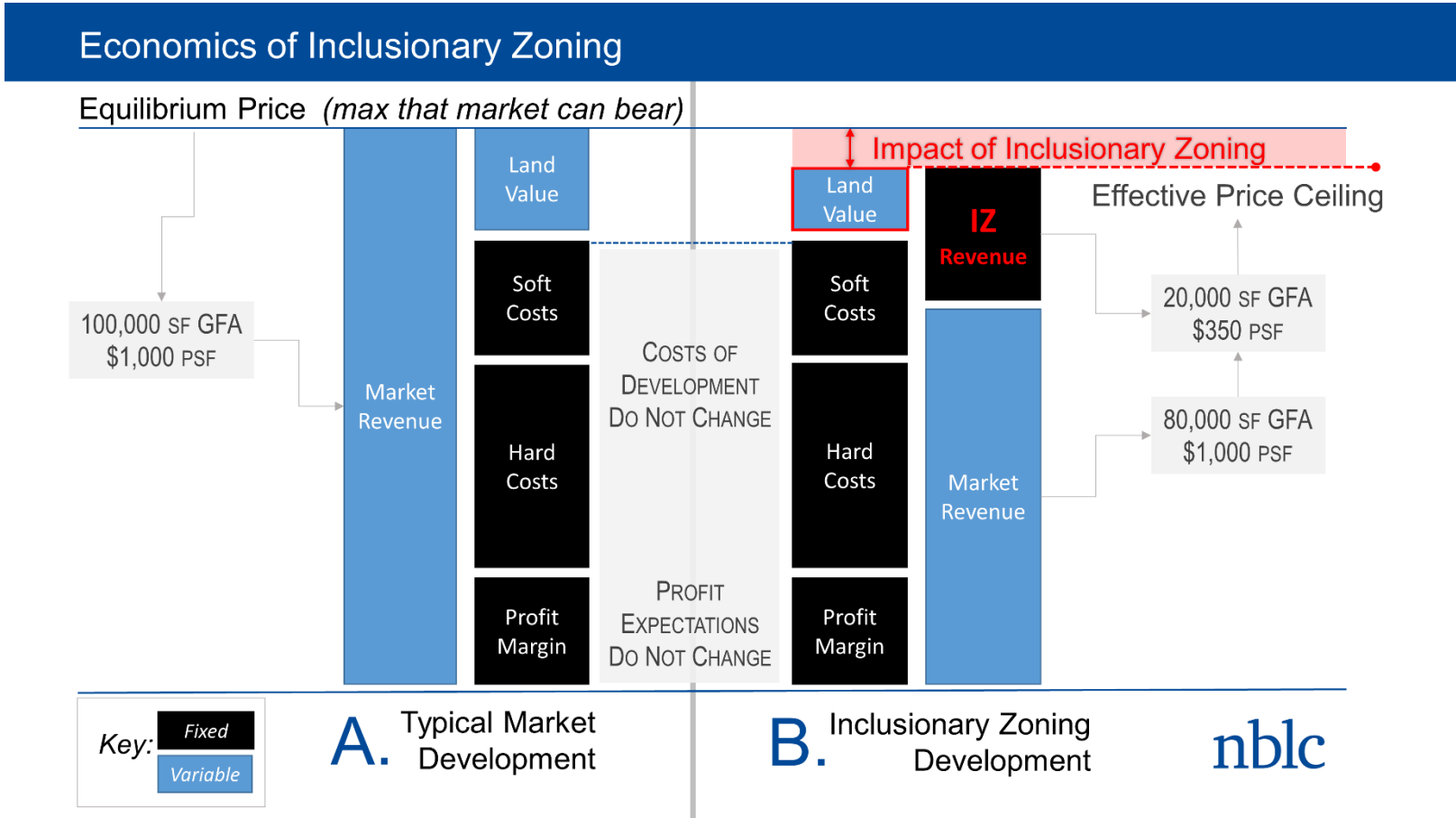
Project Costs	- B
Developer Profit	- C
Residual Land Value	= D

A reduction in revenue, as the result of an IZ policy, would be treated no differently than a developer discovering soil contamination issues at a property they are considering for purchase. A developer would not pay full market value for a site with soil contamination issues and then later attempt to recapture the increased cost by increasing the sale value of homes at pricing beyond what is supported in the market. Rather, if soil remediation works were to require \$1.0M in added project costs, the developer should seek to pay \$1.0M less for the property.

The following analysis uses this premise to estimate the potential impacts of an IZ policy across various submarket locations in Toronto. The model estimates the impact to residual land value resulting from the IZ approach (relative to the amount that a developer might have paid for land to pursue a market development prior to IZ), and compares that to the base value of land (based on the value of a typical underutilized land use, i.e. the value of a ‘soft site’ as-is, where-is).

If the land value supported by redevelopment after IZ is still greater than the base (as-is, where-is) land value, development would be viable. If the redevelopment’s land value is lower than the base land value, development would be infeasible. **Figure 2** illustrates the key differences between a typical redevelopment proforma, and one with IZ.

Figure 2



3.0 Market Context

The City of Toronto has experienced significant population growth over the past decade driven by strong immigration and employment growth. This, combined with a continued program of public and private investment and an increasingly cosmopolitan lifestyle, make the City appealing for a broad range of Canadians and newcomers to call home. While markets are currently adjusting rapidly due to impacts flowing from COVID-19, notable considerations driving Toronto's high density residential market include the following:

- Relative affordability underpinning demand for condominium and rental apartment housing forms relative to traditional low density housing choices.
- A general concentration of new high-density development and sales occurring in the former City of Toronto, in part following rapid transit service. It can be expected that this pattern of growth will be influenced by ongoing and planned transit improvements.
- A high volume of condominium apartment sales and increasing pricing in recent years since Toronto's rebound after the Financial Crisis. The undeniable attractiveness of city-living escalated pricing to unprecedented levels.
- New purpose-built rental demand has also been strong but is often at a financial disadvantage when compared to condominium formats. Overall, demand for high quality rental supply has been encouraging private investment in new rental construction.
- With increased demand and pricing, the value of lands suitable for high density residential development in the City have increased, especially in the Downtown and traditional high growth areas.
- From a cost perspective, residential construction costs are increasing, but is typically not at the same rate of unit or land pricing appreciation in strong market locations.

3.1 A Note About COVID-19

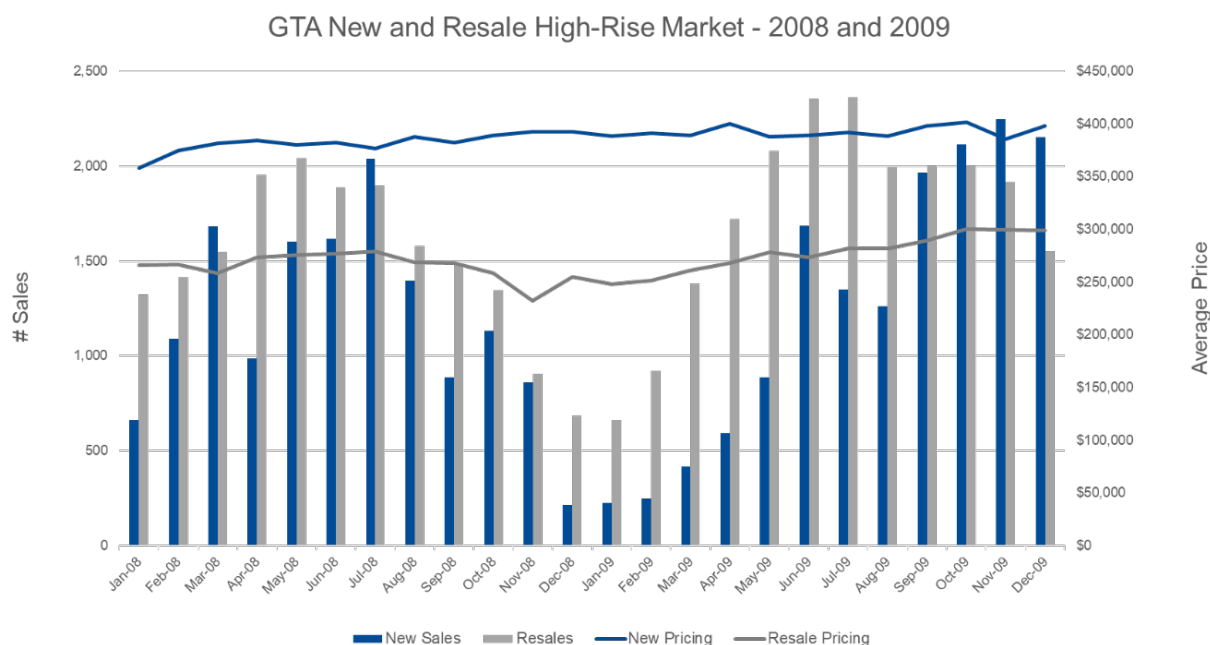
At the time of writing this report, global markets are adjusting as a result of the public health implications related to a novel coronavirus pandemic. The degree to which COVID-19 will have long term implications on real estate markets is currently unknown. The underlying fundamentals of Toronto's local real estate market, particularly throughout traditionally strong locations, had been very strong to date. However, this crisis is eroding these conditions and is likely to affect the housing market, particularly with shelter-in-place measures and shifts to remote work / learning across large sectors of the business community and for educational institutions.

The COVID-19 pandemic is unprecedented and has necessitated a shelter-in-place response which is affecting the North American economy. The recent announcement that Ontario may have reached the peak of this pandemic is encouraging, as the Province prepares for a gradual reopening of the economy.

In terms of the real estate market, sales have slowed significantly for both new and resale homes, which is expected to continue over the coming months. We are aware of developers pushing back launch dates for new projects and the pace of construction has slowed, putting further strain on supply in an already constrained market. Within the rental market, developers are delaying first occupancies in compliance with social distancing and many landlords have begun to defer rents for tenants who have hit financial difficulties. Another factor which may affect vacancy in the downtown in particular are the recent announcements from Universities who have signaled a move to e-learning for the fall semester.

Though the outcome of the current pandemic is unknown, we can look to the 2008 financial crisis to gain some understanding of how COVID-19 may impact the market. In 2008, the real estate market shut down for all intents and purposes. Launches were delayed, some projects were cancelled, and buyers, for the most part, stayed away. However, pricing in both the ownership and rental housing markets were not measurably impacted. Very little new rental product was in the market and vacancy rates remained incredibly tight. By the spring of 2009 confidence had been restored in the banking system and, driven by strong market fundamentals, the new sale and resale market regained its pre-recession strength.

Figure 3



Like with the recession a decade ago, our economy will eventually shed the effects of this pandemic. During this period there will naturally be softness, as all market participants including buyers/tenants, government staff and lenders take necessary precautions to protect public health, recuperate, re-assess their positions and adjust strategies. In fact, the success of recent sales launch activity in summer months amidst improving public health conditions has demonstrated that there is pent up demand in the market. As the post COVID-19 economy emerges, we expect that the

fundamentals that underpinned the strong housing market in the GTA will similarly bolster the market's recovery, perhaps to more balanced conditions than had been experienced across the GTA after the 2008 financial crisis.

Overall, a continued low interest rate environment, the GTA's highly diversified workforce, high levels of pent up demand, and a forecast for a strong economic recovery – combined with international recognition for Canada's management of the pandemic – bode well for long term and sustained demand for housing in the region.

4.0 The Conceptual Inclusionary Zoning Policy

The following section summarizes the conceptual affordable housing approach evaluated as part of this update to the May 2019 study.

4.1 Considering Offsets in the Design of an IZ Policy

In most jurisdictions where IZ has been successfully implemented, the underlying principle is that additional development density is traded to offset the costs of delivering affordable housing. In some instances, there are also financial programs utilized (tax incentives, etc.), but it is this density exchange that is often critical to an enduring and sustainable approach. Incentivising projects with financial tools can also be effective in emerging market locations where Inclusionary Zoning makes development financially unviable, and/ or where additional development density is less valuable.

A key consideration when designing an IZ policy is whether to:

- Not offer any financial offsets to developers, requiring that projects absorb the affordable housing requirement (i.e. without any municipal tools used to offset the affordable housing requirement);
- Apply additional density above the current approved zoning to offset the costs of an affordable housing component;
- Apply municipal financial incentives to the project to offset some of the costs of the affordable housing contribution; or,
- A combination of the above.

Determining the most appropriate approach is complicated by the fact that Toronto's housing submarkets are diverse and ever evolving. Recent changes to Provincial regulations with respect to the Planning Act will also need to be considered by the City if financial offsets are considered.

In strong market locations, additional density can be highly valuable. Therefore, an eventual policy framework that trades additional density for affordable housing is likely to be more viable in these areas. In some instances, this might allow a City to calibrate its IZ approach so that the density increase offsets the impact of the affordable housing requirements. Of note, future planning work is likely to be completed around Protected Major Station Areas where considerations regarding transit supportive densities are warranted. However, to calibrate an approach of this nature, the City would need to consider the amount of additional density that could be reconciled from a planning and built form perspective, then tailoring the IZ percentage to that context and submarket.

Example: The approach to Inclusionary Zoning in NYC

New York City started using Inclusionary Zoning in 1987. Acknowledging that it was infeasible to spend its way out of a housing crisis with financial incentives, NYC determined that there was a need to engage the private market in a solution. At first the program was voluntary, offering additional “bonus” density to developers who elected to include affordable units in their projects. However, the City moved to adopt a more permanent program beginning with a financial assessment study in 2014.

The new mandatory program adopted in 2016 delivers permanently affordable units, using proactive up zoning as the mechanism to create new value which can be exchanged for IZ units. The City conducts detailed planning studies to identify areas with growth potential and “soft” development sites. Five studies of this nature have been completed to date in order to introduce new IZ policies. And, developers can request that the City study areas where new upcoming IZ policies could be applied (e.g. areas that might shift from manufacturing to mixed use).

Important lessons from NYC’s experience with IZ are:

- That the expectations and development entitlements need to be clear, ambiguity introduces risk and speculation which undermines the policy opportunity. It is the forward looking nature of the policy, which anticipates future market demand (and value) and pre emptively up zones those locations, that is fundamental.
- The NYC approach also provides an allowance for appeal in some circumstances. The burden of proof is on the developer to demonstrate that the IZ policy makes a project unviable. As of January 2020, no developer had been successful in an appeal.
- Encourage on site delivery through high in lieu fees and onerous off site policies. Delivery off site in NYC (but within one half mile) triggers an additional 5% IZ requirement.
- Compliance and monitoring cannot be overlooked. IZ units in NYC are marketed through a single portal, “Housing Connect”. Developers must hire not for profit housing administrators to coordinate marketing, income qualification and unit registration. They are also responsible for re rentals on turnover. The City has also established a Compliance and Enforcement unit where residents can report suspicions of non compliance.

In market locations where current demand is weaker, density will have less value. In fact, there are instances where added density would detract from the viability of a project by adding market risk, time and/ or costs. Therefore, a policy that exchanges density for housing is less viable outside high demand submarket areas, where financial incentives (i.e. CIP tools) may be more effective as an interim solution. However, as the market evolves and demand improves, the need for these incentive tools diminish, because development density becomes more powerful.

From a municipal finance perspective, the provision of density as an offset approach is likely to be the most sustainable and enduring opportunity to pursue. This is because it would not require that a City forego development levies or property taxes which are required to fund growth related expenses. However, there will also be instances where financial offsets are more effective, or a combination of both density and financial tools is required in order to encourage investment in low growth areas. As noted, in American jurisdictions where Inclusionary Zoning is more common, it is this trade-off of new (bonus) density in exchange for affordable units which has been proven successful. The ultimate policy approach for Toronto should be considered relative to market and planning considerations in MTSA areas, as well as overarching municipal finance conditions.

Notwithstanding the above, this analysis is structured to test the impact of potential Inclusionary Zoning parameters absent any density offsets or financial incentives. The objective is to test the potential impacts of policy absent these tools, in order provide a basis of evidence for the City to use in its consideration of potential approaches moving forward. In some cases, it may be possible to right-size an IZ policy to current market dynamics, and in other cases, this testing may demonstrate that some form of approach to offsets is required in order to support viable development outcomes.

Another important consideration and rationale for not including any new financial incentives or density offset assumptions in this review is that over time, the need for offsets will change. If the market sustains upward trajectory, the need for incentives should diminish over time.

Notwithstanding this long term potential, we are also mindful of economic considerations related to the ongoing novel coronavirus crisis. As noted earlier, we expect a period of softness in the high density market as sales in the active and resale markets and the pace of new construction activity slows. However, our post-coronavirus economy will emerge in time, with strong underpinning through a continued low interest rate environment, highly diversified workforce, high levels of pent up demand, and international recognition for Canada's management of the pandemic.

A successful policy is one that strikes a balance with market conditions today; and, is nimble enough to evolve over time as market conditions evolve. Moreover, as this testing will demonstrate, the residential market conditions throughout Toronto's submarkets are quite varied, with varying degrees of strength. This creates some opportunity for IZ over the long term, as a policy now can 'plant a seed', introducing a new reality for development that will occur over the longer term.

4.2 Establishing an Initial IZ Requirement for Testing

This analysis builds upon previous testing and is intended for information purposes as the City considers a response to Provincial IZ regulations supporting the creation of affordable housing. As the ultimate policy has yet to be determined, this analysis reflects one conceptual approach, building evidence as a starting point, without offsets.

City staff have provided NBLC with the following parameters for testing within the context of this updated analysis:

- IZ requirements are calculated as a percentage of total residential GFA in a development.
- The percentage of IZ units required in a development (called, the “set-aside rate) in this testing is either 10% or 20%.
- IZ units are provided in rental tenure with rents set to 80% of CMHC’s average market rent (AMR) for City of Toronto. This is assumed to be the case whether the market development component is in ownership (condominium), or purpose-built rental tenure. This depth of affordability was directed from staff in response to public consultation feedback.
- IZ units are assumed to be permanently affordable, secured for 99-years.
- The model assumes current municipal fees and charges. No other financial or planning incentives are included in the model.
- Then, we repeat the analysis with a simulated Community Benefits Charge, where 15% of land value is contributed (established the day before building permit) as a soft cost in the proforma. This replaces cash-in-lieu of parkland and Section 37 contributions in the model. Of note, no adjustment to current development charges have been assumed as part of this analysis.

The following table outlines the IZ parameters evaluated as part of this report.

Table 1

Key Variables:	Current Planning Policy		Emerging CBC Framework	
	Lower Set-Aside	Higher Set-Aside	Lower Set-Aside	Higher Set-Aside
Set-Aside Rate % of Total GFA	10%	20%	10%	20%
Depth of Affordability for IZ Units	80% AMR	80% AMR	80% AMR	80% AMR
Period of Affordability	99-Years	99-Years	99-Years	99-Years

5.0 Approach to Assessing Impacts

The following is a discussion of key issues that helped guide our methodology for testing impacts. This section also summarizes our study areas and key assumptions associated with the financial analysis and building typologies tested in the analysis.

5.1 Modeling Methodology

Toronto is a very diverse marketplace. Our study therefore explores how the noted policy approach would impact the feasibility of residential development in 11 submarkets within the City. The submarket areas were selected around transit stations or growth centres and included both strong and emerging market areas with existing and/ or planned transit infrastructure improvements.

- In each of the test sites we worked with municipal staff to develop prototypical development concepts based on a view of potential development density. That is, the scale of development which might be reasonable to anticipate through a planning application.
- NBLC has tested a market rental and market condominium tenure project in each test location.
- In this assignment, proforma modeling is focused on assessing the impacts of residential uses only; this is to allow for test results to reflect residential market conditions and to develop an evidence base that can be compared across transit station areas. We do however acknowledge that in some areas, prevailing planning policy would require developments to be mixed-use, incorporating some commercial uses within the same development. This modeling effectively assumes that these spaces would have a break-even financial position. However, variances in this regard could affect results.
- For each test location we undertake research to assess local pricing and absorption dynamics which are used to develop a financial proforma, structured as a residual land value model. The RLV model assesses all the project revenues. From these revenues, we subtract the costs of development including the developer's profit and what remains is the value of the land.
- We evaluate the value of a property given the conditions of typical existing uses and as-of-right zoning in each station area to benchmark current land values. This is primarily informed by a review of recent commercial leasing activity and high density residential land transaction activity. This is referred to as the 'base value' of the property, i.e. its value on an as-is, where-is basis.
- To establish assumptions around existing site values for comparison to the land value resulting from redevelopment, the analysis utilizes the greater land value of either a typical existing underutilized land use, or the likely land value of as-of-right residential density as informed by market data. In practice, there will be variation in value amongst underutilized sites in any

market area. Sites may have different existing values or receive more density than what was tested in this analysis. These variations will have an impact on viability.

- We then evaluate land value based the redevelopment concept at each test location (assuming this reflects reasonable development potential) and the conceptual IZ policy framework discussed earlier.
- The following table outlines the density and built form assumptions for each test site.

Table 2

Summary of Prototypical Test Site Parameters						
Site No.	Market Location	Test Site Area (sm)	As-of-right Residential FSI	Tested Residential Built Form		
				No. Storeys	No. Units	FSI
1	Etobicoke Centre	3,800	3.5	28	241	4.3
2	Stockyard / Junction	4,400	3.0	12	261	4.7
3	Weston (NIA)	3,400	2.5	25	240	5.2
4	Finch West	2,800	1.0	8	197	5.8
5	Yonge Eglinton Centre	2,000	3.0	22	222	11.5
6	North York Centre	3,500	4.5	35	283	8.6
7	Downtown	2,600	5.0	47	640	15.7
8	Toronto West	3,700	2.0	22	241	7.3
9	Toronto East	700	2.0	6	16	3.7
10	Golden Mile	7,000	2.0	39	227	3.0
11	Scarborough Centre	4,500	2.0	41	398	7.0

5.2 Land Value as a Measure of Feasibility

To evaluate the potential impact of an IZ policy, we measure land value results through a financial analysis. To do this, we employ a residual land value (RLV) model in line with the approach discussed earlier in this report. For each of the prototypical developments across the submarket areas, the RLV model is developed using local market inputs.

In our analysis, the IZ policy reduces a project’s revenue, thereby reducing the land value – again, the developer profit margins are not adjusted. Because there is a ceiling on revenue, a developer could not afford to pay as much for land if it also must maintain its profit margin. We compare these land values to the land value of the underutilized site.

If the land value of any redevelopment scenario approaches (within 10%) or falls below the base value of a site (i.e. the value that might be supported as-is, were-is), we assume that the viability of the development project is in question. In this instance, a residential developer would not likely be able to purchase the site because the value the developer can afford to pay does not present enough upside to motivate a landowner to close their business. And, it might become possible for other economically competitive uses to outperform (i.e. new office).

Further, if the impact from IZ on land value is too extreme, residential developers who already own land may not be able to recuperate appropriate expected returns, and may choose not to develop the site, or the site's highest and best use may change to another form of non-residential or residential development which does not require Inclusionary Zoning.

Based on the above analysis, we look to see where the financial model creates challenging or unviable outcomes. These will be the areas where we would expect to see development interest weaken or delayed as a result of IZ until the market can support higher pricing, allowing residential land values to rise.

If the estimated land value of the redevelopment opportunity with IZ on the site exceeds the base value of the site, by at least 10%, redevelopment is considered to be viable. That is, within that test premutation, there is a viable policy outcome.

5.3 Financial Model Assumptions

The following assumptions are applied in all scenarios:

- The city-wide average affordable rental rate of \$1,178 per month (80% of CMHC Average Market Rate as of Fall 2019) is used for IZ units in this analysis.
- Hard construction costs are estimated from the Altus Construction Cost Guide 2020, using midpoints for cost ranges applicable to each built form concept;
- An additional hard cost premium of 10% is assumed in the Downtown and Yonge-Eglinton to acknowledge the common complexity of developing on tight sites, often with heritage considerations or other extraordinary considerations to manage.
- Current City of Toronto property tax rates, planning application fees, development charges, and current cash-in-lieu (CIL) rate for parkland dedication are included in the model. Other soft costs including consultants (engineering, architectural, etc.), project management, legal, insurance and marketing fees are accounted for.
- Where applicable, Section 37 assumptions have been developed based on information provided by the City of Toronto, using recent agreements in each submarket as precedent.
- In the Community Benefit Charges (CBC) scenarios, CBC is assumed to replace parkland dedication CIL and Section 37 and is calculated at 15% of land value at the time of permit issuance.
- For construction financing, it is assumed the developer can borrow 75% of construction costs at 5.0% per annum. This assumption is also used for rental developments which in some cases may require higher developer equity contributions.

- Pre-development timelines and construction timelines are estimates based on anticipated absorption rates and pace of construction for each prototypical development concept.

The following tables highlight the range of other key assumptions applied throughout the modeling exercise as well as assumptions which were developed for each market area and prototypical development concept based on market research.

Table 3

Financial Model Assumptions	
Variables	
Revenue Inflation, per annum	2.00%
Capitalization Rate	4.00%
Vacancy & Bad Debt	2.00%
Operating Expense Ratio (Affordable)	50.00%
Operating Expense Ratio (Market)	36.00%
Hard Costs	
High Density Office (Class A)	\$278
Hybrid Construction up to 6 storeys (\$psf)	\$218
Apartment up to 12 storeys (\$psf)	\$238
Apartment 13 to 39 Storeys (\$psf)	\$243
Apartment 40 to 60 Storeys (\$psf)	\$268
Apartment over 60 storeys (\$psf)	\$300
Underground Parking (\$psf)	\$148
Underground Parking (Single Level, \$psf)	\$110
Surface-Level Parking Construction	\$15
Servicing Connection Cost (per unit)	\$500
Landscaping & Hardscaping (per unit)	\$1,000
Demolition & Site Prep (\$psf of site area)	\$15
Contingency Factor (% of hard costs)	10.00%
Cost Inflation, per annum	2.00%
Soft Costs	
Planning and Building Application Fees	
Planning Application Fees	
OPA and ZBL - base fee	\$41,383
OPA and ZBL - additional fee (psm)	\$8.14
Site Plan Application - base fee	\$22,225
Site Plan Application - additional fee (psm)	
500-700 sm	\$15.67
700-1400 sm	\$12.11
1400-4400 sm	\$7.86
Over 4400 sm	\$3.91
Plan of Condominium - base fee	\$9,801
Plan of Condominium - additional fee (unit)	\$27.11
Building Application Fees	
Residential Unit Fee (per unit)	\$52.08

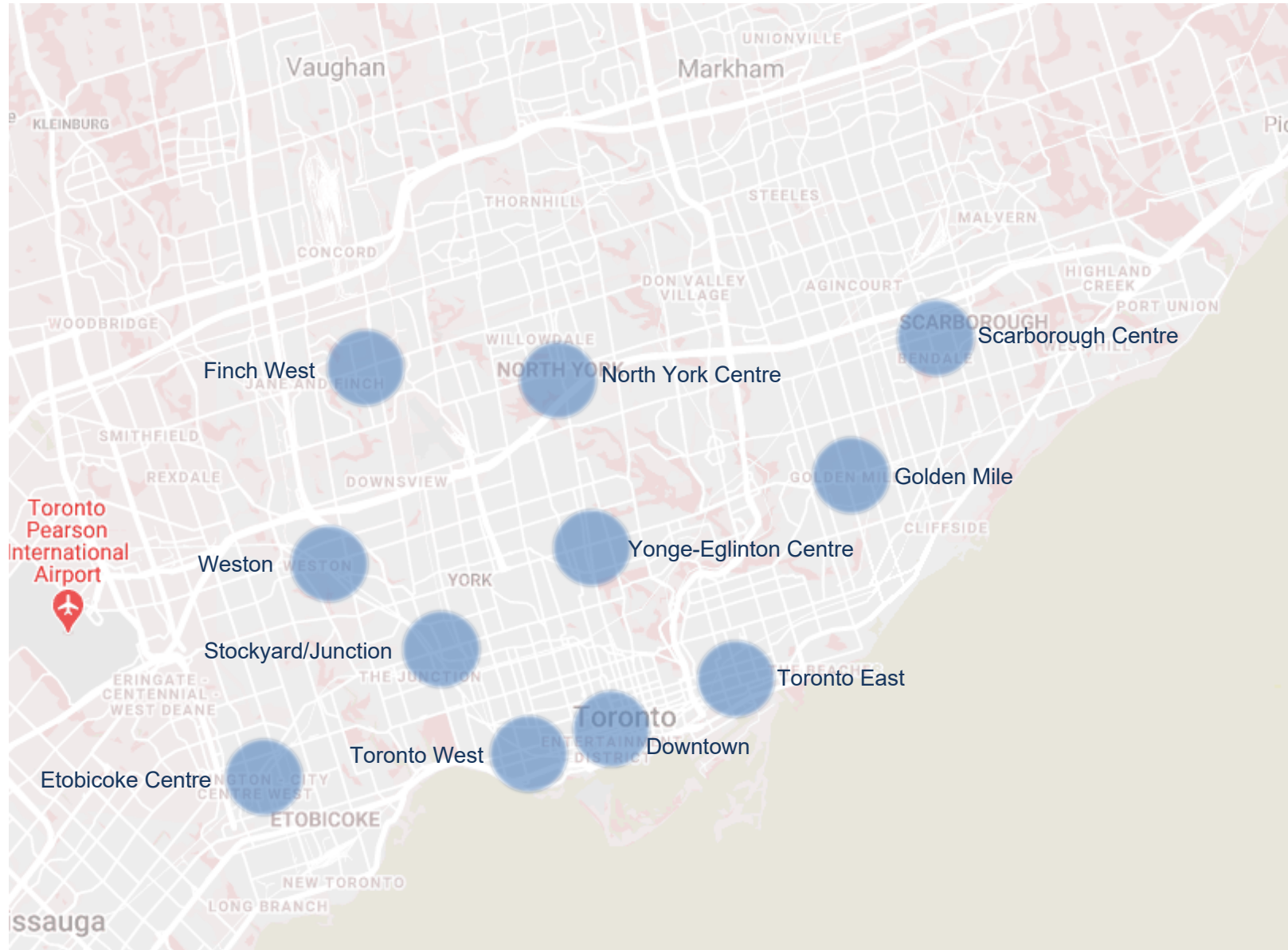
Multiple Unit Building Index (per sm)	\$17.16
Municipal Development Charges	
Apartments 1 Bed and Bach.	\$30,656
Apartments 2 + Bedrooms	\$46,963
Multiples 1 Bed and Bach.	\$33,266
Multiples 2 + Bedrooms	\$66,313
Educational Development Charges	\$1,793
Section 37 Contribution	<i>*Variable</i>
Cash-in-lieu of Parkland (% of Land Value)	10.00%
Community Benefits Charge (% of Land Value)	15.00%
Property Tax Rate	1.193%
Consultants, PM, Legal, Insurance, Marketing, Development & Construction Management	14.50%
Sales Commission Fee	2.50%
Lender's Administrative Fee	0.80%
Construction Loan Interest Rate	5.00%
HST Rate	13.00%
Other Rates & Timing	
Profit Margin (Ownership Tenure)	15.00%
Discount Rate	6.00%
Absorption Rate	<i>*Variable</i>
Construction Period	<i>*Variable</i>
Municipal Development Charges	
Apartments 1 Bed and Bach.	\$30,656
Apartments 2 + Bedrooms	\$46,963
Multiples 1 Bed and Bach.	\$33,266
Multiples 2 + Bedrooms	\$66,313
Educational Development Charge	\$1,793
Section 37 Contribution (where applicable)	<i>*Variable</i>
Cash-in-lieu of Parkland Contribution (where applicable)	10.00%
Property Tax Rate	1.193%
Consultants, PM, Legal, Insurance, Marketing, Development & Construction Management	14.50%
Sales Commission Fee	2.50%
Lender's Administrative Fee	0.80%
Construction Loan Interest Rate	5.00%
HST Rate	13.00%
Other Rates & Timing	
Profit Margin (Ownership Tenure)	15.00%
Discount Rate	6.00%
Absorption Rate	<i>*Variable</i>
Construction Period	<i>*Variable</i>

Table 4

Area Specific Model Assumptions										
Site	Market Location	Area Specific Cost Variables		Area Specific Market Assumptions						
		Downtown/ Yonge- Eglinton Cost Premium	S.37 cost per unit*	Avg. Unit Size (sf)	Condo Sales Absorption Rate (per mo.)	Condo Pricing \$PSF	Condo Parking Revenue	Rental Pricing \$psf	Rental Parking Revenue (per mo)	Parking Ratio
1	Etobicoke Centre	-	\$2,800	700	12.0	\$840	\$50,000	\$3.25	\$120	0.90
2	Stockyards / Junction	-	\$2,600	700	15.0	\$925	\$50,000	\$3.40	\$120	0.65
3	Weston (NIA)	-	\$2,400	725	10.0	\$750	\$50,000	\$2.75	\$85	0.80
4	Finch West	-	\$1,800	700	12.0	\$800	\$50,000	\$3.10	\$85	0.70
5	Yonge Eglinton Centre	10%	\$3,200	700	20.0	\$1,250	\$85,000	\$4.00	\$150	0.35
6	North York Centre	-	\$5,600	700	18.0	\$1,200	\$70,000	\$3.90	\$125	0.80
7	Downtown	10%	\$4,800	650	25.0	\$1,400	\$125,000	\$4.50	\$180	0.25
8	Toronto West	-	\$3,000	700	15.0	\$1,100	\$75,000	\$4.25	\$150	0.50
9	Toronto East	-	\$3,400	725	10.0	\$1,150	\$65,000	\$3.80	\$150	0.60
10	Golden Mile	-	\$2,600	725	10.0	\$950	\$50,000	\$3.10	\$85	0.90
11	Scarborough Centre	-	\$2,000	725	15.0	\$875	\$40,000	\$3.25	\$85	0.90

*Assumptions developed through input and information provided by the City of Toronto

Figure 4 – Locations of the Test Sites



5.4 Limitations of this Analysis

This analysis uses available data at a point in time in order to develop a basis of evidence for policymakers to consider and engage with stakeholders as strategies to address affordable housing needs are developed. However, given the nature of free markets, this analysis cannot account for future unexpected shifts in economic conditions which may directly impact development viability. At the time of writing this report, global markets are adjusting in light of the public health implications related to COVID-19. The degree to which these considerations have long term implications on real estate markets is currently unknown. The underlying fundamentals of the market had been positive prior to this, and the market data and assumptions used in proforma analyses herein are reflective of pre COVID-19 dynamics. Sustained impacts to the macro-economic health of Ontario and Canada may warrant the reassessment of any emerging Inclusionary Zoning policy.

Moreover, imminent Provincial policy changes as a result of Bill 108 and Bill 197 and resulting regulations will likely warrant further consideration of IZ impacts within a revised framework of municipal charges, planning entitlements and geographical considerations related to IZ.

A major variable affecting the outcomes of this analysis is the relationship between existing zoning and the ultimate built form which may be achievable through a planning process. It is not uncommon throughout the City of Toronto for existing zoning to be outdated. However, as required by the Growth Plan, the City's zoning will need to be updated as part of Protected Major Transit Station Area (MTSA) work. The PMTSA process will require a planning study be undertaken for that MTSA to identify the number of residents and jobs per hectare, permitted uses and minimum densities. Conversely, there may also be locations where as-of-right development density represents the maximum achievable density for that context. The North York Secondary Plan for examples already recognizes in its zoning by-law significant as-of right densities. In instances such as this, IZ might produce limited near-term opportunities for affordable housing.

This analysis isolates evaluations to one single development phase. However, in some MTSA's, the nature of redeveloping areas is such that larger underutilized lot areas will result in multi-phase developments. Larger sites may have an improved ability to absorb affordable housing requirements through added efficiency and often lower land values on an index basis. This analysis pro rates the valuation of base land uses to the area required to support a single phase of redevelopment.

This analysis cannot capture certain nuances arising from the nature of a historical land purchase or the former capitalization of land costs through the operation of an income-generating use in

the interim. Nor can it contemplate the acquisition of land at speculative values, not fully appreciating the magnitude of impacts from future policy adjustments.

This analysis does not include financial incentives for affordable units or any of the notable CMHC financing tools that exist today for rental projects (through competitive intake programs). Rental apartment testing results could improve when these programs are considered. Given that duration of these programs are not known, they have not been considered in this analysis.

Finally, there will also be instances where land vendors, developers or operators have operating assumptions or methodological approaches that differ from those in this report. For this reason, it is possible that development may or may not occur in practice, at times these instances may be contrary to the results of this work. Again, this analysis is intended to provide the City with a high level view with respect to the opportunities or barriers related to a forward looking IZ approach in scenarios which are thought to be reasonable prototypes for development occurring under current market conditions within the premise of willing buyer, willing seller.

The results of this analysis should be used to inform policy decision making but should not be construed as absolute metrics as the policy approach is implemented.

6.0 Analysis

Table 5 illustrates the results of financial testing across all permutations considered as part of this updated testing. This includes either a 10% or 20% set-aside rate, permanently affordable at pricing equivalent to 80% of CMHC AMR. These parameters are applied to the existing Planning Act framework (which includes cash-in-lieu of parkland and a payment for community benefits and infrastructure through Section 37), or assumptions meant to simulate an emerging Community Benefits Charge (CBC) framework.

There are three key pieces of information included in the table:

- An estimate of base land value for each hypothetical test site, estimated through review of existing (under-utilized) uses and as-of-right density parameters;
- Results based on the land value supported by a redevelopment under current policy parameters (i.e. with no IZ), this is the “Base Case Market Development Land Value”; and,
- Results based on the residual land value supported by a redevelopment with IZ, including the magnitude of land value change in percentage terms versus a market development.

The summary table displays green (‘Viable’) results in instances where the land values supported by residential redevelopment are more than 10% above existing land value. Development scenarios that result in a residential land values that are less than 10% above existing as-is-where is land values are identified in orange (‘Challenge’). The analysis also demonstrates the magnitude (percentage) of change in land value that is estimated to result from a particular IZ approach when compared to development within base case parameters.

A notable finding through this analysis is that a CBC rate at 15% creates relatively little change to the viability of IZ versus the existing Planning Act framework given our assumptions around cash in lieu of parkland and likely S.37 costs. However, this should be reviewed again if final regulations amend the 15% rate, or if development charges are also impacted (for the purposes of this analysis, it is assumed that development charges remain unchanged).

Table 5

Estimate of Land Value Impact / Viability of Inclusionary Zoning applied to All Density										
Site & Market Location		Estimate of Existing Site Land Value*	Proposed Built Form			Base Case Market Development Land Value Result	Land Value Result & Percentage Change from Base Case			
			No. Storeys	No. Units	Tenure		Current S.37/42		15% CBC	
							10% Inclusion 80% AMR 99-Year Affordability	20% Inclusion 80% AMR 99-Year Affordability	10% Inclusion 80% AMR 99-Year Affordability	20% Inclusion 80% AMR 99-Year Affordability
1	Etobicoke Centre	\$10,070,000	28	214	Condo	Viable	Viable, 20% to 30% impact	Challenge, > 50% impact	Viable, 20% to 30% impact	Challenge, > 50% impact
					Rental	Challenge	Challenge, 30% to 50% impact	Challenge, > 50% impact	Challenge, 30% to 50% impact	Challenge, > 50% impact
2	Stockyards / Junction	\$11,350,000	12	269	Condo	Viable	Viable, 10% to 20% impact	Viable, 30% to 50% impact	Viable, 20% to 30% impact	Viable, 30% to 50% impact
					Rental	Viable	Viable, 20% to 30% impact	Challenge, 30% to 50% impact	Viable, 20% to 30% impact	Challenge, 30% to 50% impact
3	Weston	\$5,330,000	25	218	Condo	Viable	Viable, 30% to 50% impact	Challenge, > 50% impact	Viable, 30% to 50% impact	Challenge, > 50% impact
					Rental	Challenge	Challenge, > 50% impact	Challenge, > 50% impact	Challenge, > 50% impact	Challenge, > 50% impact
4	Finch West	\$6,850,000	8	210	Condo	Viable	Viable, 20% to 30% impact	Challenge, > 50% impact	Viable, 20% to 30% impact	Challenge, > 50% impact
					Rental	Viable	Challenge, 30% to 50% impact	Challenge, > 50% impact	Challenge, 30% to 50% impact	Challenge, > 50% impact
5	Yonge Eglinton Centre	\$19,310,000	22	239	Condo	Viable	Viable, 10% to 20% impact	Viable, 30% to 50% impact	Viable, 10% to 20% impact	Viable, 30% to 50% impact
					Rental	Viable	Challenge, 20% to 30% impact	Challenge, 30% to 50% impact	Challenge, 20% to 30% impact	Challenge, 30% to 50% impact
6	North York Centre	\$27,170,000	35	387	Condo	Viable	Viable, 10% to 20% impact	Viable, 30% to 50% impact	Viable, 10% to 20% impact	Viable, 30% to 50% impact
					Rental	Viable	Challenge, 10% to 20% impact	Challenge, 30% to 50% impact	Challenge, 10% to 20% impact	Challenge, 30% to 50% impact
7	TO Core	\$28,270,000	47	570	Condo	Viable	Viable, 10% to 20% impact	Viable, 30% to 50% impact	Viable, 10% to 20% impact	Viable, 30% to 50% impact
					Rental	Viable	Viable, 10% to 20% impact	Viable, 30% to 50% impact	Viable, 10% to 20% impact	Viable, 30% to 50% impact
8	Toronto West	\$19,880,000	22	348	Condo	Viable	Viable, 10% to 20% impact	Viable, 30% to 50% impact	Viable, 10% to 20% impact	Viable, 30% to 50% impact
					Rental	Viable	Viable, 10% to 20% impact	Viable, 30% to 50% impact	Viable, 10% to 20% impact	Viable, 30% to 50% impact
9	Toronto East	\$2,430,000	6	31	Condo	Viable	Viable, 10% to 20% impact	Viable, 20% to 30% impact	Viable, 10% to 20% impact	Viable, 20% to 30% impact
					Rental	Viable	Viable, 10% to 20% impact	Challenge, 20% to 30% impact	Viable, 10% to 20% impact	Challenge, 20% to 30% impact
10	Golden Mile	\$13,560,000	39	262	Condo	Viable	Viable, 20% to 30% impact	Viable, 30% to 50% impact	Viable, 20% to 30% impact	Viable, 30% to 50% impact
					Rental	Challenge	Challenge, 30% to 50% impact	Challenge, > 50% impact	Challenge, 30% to 50% impact	Challenge, > 50% impact
11	Scarborough Centre	\$5,790,000	41	392	Condo	Viable	Viable, 30% to 50% impact	Viable, > 50% impact	Viable, 30% to 50% impact	Viable, > 50% impact
					Rental	Viable	Challenge, > 50% impact	Challenge, > 50% impact	Challenge, > 50% impact	Challenge, > 50% impact

* Pro rated for multi-phase projects

6.1 IZ Policies Impact Land Values, but at Different Rates

The impact of the tested IZ approaches would reduce the revenue of each project while holding costs relatively stable (i.e. increasing costs as a proportion of revenue). Therefore, the shortfall is absorbed as a reduction in land value. Generally, large reductions in land value are observed in areas where the anticipated building size is relatively large, and/ or where achievable market pricing is high (which results in a larger gap between market and affordable price/rents).

For instance, the inclusion of 10% affordable rental units in a condominium apartment project in Weston Village is estimated to reduce land value by about \$20 per square foot (PSF) buildable. By comparison, the TO Core (Downtown) test demonstrates an impact in the order of \$45 PSF.

6.2 Stronger Market Areas Show More Potential for Affordable Units through IZ

The impact on viability should be distinguished from impact on land value. This analysis compares a redevelopment's potential land value to the land value supported by an existing use (base land value) to determine viability in terms of an IZ policy. In areas where residential development land value is much higher than as-is where-is land value, a project could stay viable even if the inclusion of affordable units depresses the land value by a significant amount. As the previous table outlines, in some instances an impact to land value in the order of 10% to 20% can be enough in some instances to erode development viability. Whereas, in some instances a 50% impact can be sustained while maintaining viability – that is, a residential developer could still afford to acquire land at as-is where-is value, despite the sizable impact on land value brought about by IZ.

Our analysis illustrates that a 10% set-aside rate could likely be absorbed in condominium apartment projects across all of the test locations in this analysis. In the City's strongest market areas, a condominium or rental redevelopment could yield land values that exceed the base land value by a large margin, therefore can remain viable with the inclusion of 10% affordable units at the parameters described earlier. In some instances, this is also true at a 20% set-aside rate.

In areas where viability is maintained, but where land values are significantly impacted, it is possible that this might 'shock' the market, notwithstanding the fact that the 10% premium over typical as-is where-is value is maintained. A range of project and site-specific factors would become relevant, including the motivations of the landowner and developer interests involved. This dynamic should be addressed through a transition policy if/ when the City implements a policy of this nature. A shock to the market could manifest in different ways; but would likely include a delay in the pace at which near term residential development activity occurs, or a shift in investment activity to more favourable locations or land uses.

6.3 Impacts on Emerging Markets

There are high density residential submarket locations in Toronto that are less mature, including market areas where a new purpose-built rental project might be challenging in current market conditions, notwithstanding an IZ policy. While the market opportunity for new high density development is emerging across most submarkets city-wide, an IZ policy must acknowledge that the margins for new apartment (rental or condominium) development do not always support high land values when compared to other economically productive uses in weaker market locations.

Based on the built form and market assumptions used in this analysis, the testing demonstrates that the inclusion of 10% affordable rental units within condominium apartment projects is likely sustainable across each of the submarket locations. The results are more mixed when the same 10% IZ policy is applied to a purpose-built rental project.

The testing also demonstrates that moving to a 20% IZ requirement creates much greater strain on the economics of development in weaker submarkets (and on purpose-built rental projects in some stronger submarkets, also).

These results show that an ambitious IZ policy may have a significant impact on the viability of new apartment projects in emerging high density market areas as the policy would limit achievable revenue which cannot be appropriately absorbed or accounted for through land values. Thus, it is critical that an IZ policy be developed with an understanding of the market nuances at play in each submarket (and to monitor these markets over time). Seeking high set-aside rates, deep levels or permanent affordability in emerging markets may discourage new development – developers will look for other opportunities.

Our tests indicate that in relative terms, the City's stronger high-density submarket locations (Yonge-Eglinton, North York Centre, Downtown, Toronto West and Toronto East) demonstrate a greater degree of capacity to absorb the impacts of the tested IZ policies. In the weaker submarkets, development economics become even more challenging with an IZ requirement, although the gap in base value and redevelopment land values are smaller in some areas than others. Developers are frequently apprehensive of taking large risks in emerging markets and will often reduce what they are willing to pay for land in these markets as a form of "risk premium". As such, other non-residential uses may represent the highest and best use of land when IZ is applied without offsetting measures or gradual transition in accordance with market evidence.

Land value impacts vary between each prototype test and market area. This analysis illustrates an IZ policy could be successful in stronger areas at a 20% set-aside rate, particularly when applied in condominium apartment developments. However, this is held in contrast to weaker market

areas in which the implementation of the same IZ approach would yield challenging economic results. The different results between stronger and weaker submarket areas highlight the necessity of a nuanced approach for IZ.

The implementation of IZ must be cognisant of market dynamics. Phasing or transition policies are strongly encouraged in order to avoid a shock the market. However, this is not to signal that IZ policies shouldn't be considered in outside of MTSA locations where strong residential development economics are ubiquitous. In fact, early implementation of IZ policies in these emerging locations could set a market up for long term success, injecting the policy early on, before residential land values strengthen significantly. The trade-off would likely be a delay in the pace at which near term residential development activity occurs – effectively maintaining the status quo for longer. The benefit, however, is that once residential development economics do improve, IZ is already part of the economic and land pricing equation, producing affordable supply as a result of every new market residential project. In all cases, the policy should be monitored and adjusted as economics evolve.

6.4 Impacts on Rental Projects

IZ units affect project viability primarily through a revenue reduction as units would be rented at affordable rents instead of sold or leased at market rates. In this analysis we tested the inclusion of affordable rental units in both market condominium and market rental buildings. Generally, the residual land value in the market condominium and market rental buildings are reduced by a relatively similar amount on a percentage basis (notwithstanding some exceptions). For example:

- In the North York Centre submarket test scenario, a 10% set-aside rate (affordable rental in perpetuity) within a condominium development is estimated to reduce land value by about 16%.
- In the same location, the inclusion of 10% affordable GFA (in perpetuity) in a new purpose-built rental development reduces the land value by 19%.

Despite a similar reduction in land value, the impact on viability through an IZ policy could be different. Depending on the price of underutilized land in the market, it is possible that condominium projects could sustain the IZ policy, while new rental projects would be deterred.

With other things being equal, condominium apartment developments typically support a higher land value than rental developments, and therefore are more likely to stay viable with IZ requirements. This is common across Ontario; however, it should be noted that CMHC financing programming has not been assumed as part of this review. Where successful, some projects can benefit significantly from these tools.

Rental housing is typically at a disadvantage in Ontario for several reasons including:

- **Financing:** In a condominium project, financing can be supported with less equity due to the pre-sale process. The pre-sale process allows lenders to become comfortable with the viability of the project, years before the development is completed. In rental housing, leasing cannot begin until the building is very close to completion. The market risk between the time the project is initiated, and the leasing period is much more difficult to assess. As a result, equity requirements are typically greater in purpose-built rental projects.
- **Revenue:** Related to the above, a rental development requires the developer to go many years into the development process without any revenue. Even once the building is constructed it can take many months for the building to become fully occupied and ‘stabilize’. In a condominium development, subject to obtaining deposit insurance, purchaser’s deposits can act as an inexpensive source of project financing. When the development is ready to be occupied, the developer can charge purchasers off occupied units an interim occupancy charge until the project is registered and purchasers begin to pay their mortgages.
- **Market and Risk:** For many developers the market opportunity for condominium development offers much less risk and relatively quick returns compared to purpose-built rental development where returns are earned over a longer period.
- **Land Acquisition Competition:** For the reasons identified above, rental developers must attribute greater discounting to their projects to reflect risk and time-value-of-money. This often means that a rental developer cannot pay the same land price that a condominium developer can. Often, new rental development occurs on land which has been historically inventoried or capitalized through another productive land use (i.e. large format retail).

Across the eleven test sites, new market rental developments are largely viable. However, it becomes apparent that due to the factors noted above, IZ would negatively affect new rental projects to a greater degree than condo. However, this is also the case now, where rental developers are competing for land in a free market with condominium apartment developers.

There are few instances where the tested IZ policies would reduce land values to zero, or negative values. Therefore, in instances where rental developers may already own (surplus) land, development may still proceed if total expected development revenues exceed costs.

6.5 Affordability Period

In this updated evaluation, the City has opted to test only one period of affordability; 99-years. However, previous iterations of this analysis have demonstrated that limited affordability timelines can – depending on the perspectives of individual developers – mitigate the land value impacts of IZ to some degree by offering a reversionary value at some point in time.

Notwithstanding, the policy implications with a limed period of affordability are not optimal; from an affordable housing policy perspective, longer affordability timelines are best.

6.6 Impacts on Affordability

As discussed in prior sections and our previous reporting, an impact of an IZ policy would be to cap a portion of project revenue, (increasing costs as a proportion of total revenue) placing downward pressure on residential land value. If land prices decline significantly, landowners may be less likely to sell property for the purposes of redevelopment. This could result in reducing the supply of housing entering the marketplace until demand increases pricing sufficiently to trigger development. In broad terms, constraints on housing supply can affect affordability. The key to a successful IZ policy will be to strike a degree of balance so that the supply of new market housing does not contract.

6.7 Impacts on Other Land Uses

If IZ is applied in a manner that creates a significant impact to residential land values, an unintended consequence could be an improvement in the ability for other productive non-residential uses such as retail or office development to compete for land in prime locations, or a slowing of development interest overall. This should be considered relative to other growth objectives that the City has at existing and emerging transit station areas.

6.8 Markets Need Time to Adjust

Developers typically acquire land on a speculative basis, based on their understanding of the maximum approvable (and market supportable) built form. Given this, it will be important that the City design and implement an IZ approach that is phased in to allow for development to proceed in the near term – this is particularly important in weaker market locations. This is essential so that the policy can achieve its desired outcome; creating a new supply of affordable housing while also increasing the overall supply of housing to provide for more gradual pricing increases in other market segments.

Likewise, the City must clearly signal an emerging policy in order to ensure that future speculative land market activity can adjust to new cost considerations. This is not to signal that in weaker market locations, where speculative land purchasing has yet to ramp up, are not desirable locations to implement IZ policies. While the implementation of IZ could slow down/ delay the market maturation process, early implementation will in fact condition the development community about future expectations and be offset by other financial incentive programs in the interim. Overall, near term implementation of IZ, even if enacted at first with a token requirement, will create far less hardship if implemented prior to the maturation of the City's weaker submarket locations.

7.0 Conclusions

This review has demonstrated that there are locations across Toronto where the market is likely to have capacity to absorb an IZ policy. Without a corresponding density offset or financial incentive program, the overall impact of Inclusionary Zoning in all markets would be a decrease in total development revenue. This in turn would be absorbed by reducing residential land values.

In instances where the land value of a development opportunity falls below the as-is value of a property, development will be discouraged or delayed until the market demand for housing in the area supports higher pricing. If IZ were to be bluntly applied without acknowledgement of market nuance, an unintended consequence in the interim could be a relative improvement in the ability for other non-residential uses such as office or retail development to compete for land in Major Transit Station Areas.

The majority of Toronto's residential apartment development activity occurs within the Downtown, the Yonge Corridor and in North York along the Subway lines. Prior to market uncertainty brought about by COVID-19, these areas have had very strong market fundamentals. We assume that once the impacts of COVID-19 are shed, the housing market will return to normalcy. Within this framework of assumptions, this study generally demonstrates that the land market should have the ability to absorb the impact brought about by a modest IZ policy without jeopardizing development viability.

Inclusionary Zoning presents a long-term policy opportunity which could yield a new supply of affordable housing units for the City. Introducing IZ now – even at low set-aside rates – including in weaker high-density submarkets, may mean that it takes longer for new development to occur (without counteractive intervention, in the form of financial incentives, for instance). However, with a longer-term policy vision in place, the early introduction of IZ is beneficial because it sets a standard for doing business that will be priced into future market activity.

As the City of Toronto considers a potential IZ policy, we offer the following recommendations:

- Develop the IZ framework alongside clear development entitlements in each MTSA. A successful IZ policy requires a measure of clarity in station area plans to form the basis by which land values are established.
- The City should consider whether each MTSA could have different set-aside rates to allow for market variances as it relates to the percentage affordability and allowable densities determined through MTSA planning processes. Generally speaking, set-aside rates can increase with allowable densities.

- IZ policies must acknowledge the varied characteristics of local submarkets. These measures in weaker market zones could include Community Improvement Plans or other focused public investments such as new transit, parks or community facilities that help improve the market appeal of the area.
- The City could consider implementing a framework to allow for the IZ policy to be amended or waived in instances where developers can demonstrate a lack of feasibility (e.g. in purpose-built rental apartment scenarios) and/ or where other significant community benefits are being provided.
- The City should consider a phase in period starting with a low IZ set-aside rate with specified (e.g. annual) increases; and/ or an announcement to the market that the IZ policy will come into force in a certain period of time (e.g. as MTSA plans are implemented). Both approaches would allow markets to adjust and for sites which are currently in pre-development stages to proceed, allowing new development lands to be priced accordingly.
- IZ policies should consider whether rules about who owns and operates the units and maintains oversight of the depth and duration of affordable as well as the unit types are necessary. This represents a next step for the City as it consults with council and stakeholders, beginning to frame a preferred policy approach.
- The IZ policy should be revisited at regular intervals to ensure that the policy is nimble and able to adjust to the economic realities of the day. Of note, this analysis was completed without fully phased in Community Benefits Charge policies relating to Bill 108. Moreover, at the time of drafting this report considerations relating to novel coronavirus COVID-19 are impacting global markets. Illustrations of policy and market fluctuations like this emphasize the need for flexibility and regular monitoring of potential IZ policies throughout the City.
- This analysis cannot assume the wide variations of market factors and the interests of developers and landowners. For example, the analysis does not consider landowners of shopping centres who have marginal or no land costs or developers that might accept a lower rate of return. The results therefore should be considered at a high level and used to provide general direction in developing IZ policies. Further review or consideration could be warranted once MTSA plans are advanced and as market conditions evolve.



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**Affordable Housing in the
City of Toronto - A Responsibility We All Share**
Appendix C



October 20, 2020

FINAL DRAFT

Memorandum to: Paula Tenuta
BILD

From: Daryl Keleher, Senior Director
Altus Group Economic Consulting

Subject: Analysis of City of Toronto Inclusionary Zoning Proposal
Our File: P-6118

Altus Group was retained by BILD to review the City of Toronto's proposed Inclusionary Zoning system, including background materials prepared by NBLC that assess the impact on the housing market and development feasibility.

KEY POINTS

Existing and Future IZ Cost to Developers of Affordable Housing Programs

- **Development Charges Already Recover Costs for Subsidized Housing from New Developments:** Approximately 6.4% of the City's DC is for "subsidized housing" - almost \$2,900 per large apartment unit, and \$1,900 per small apartment. This part of the City's DC has increased by 2,600% since 2004;
- **Community Benefits Charges Can Also Be Used to Recover Costs for Affordable Housing:** The Community Benefits Charge (CBC) will be in-force in the City by September 18, 2022, and if the City is able to utilize the full 4% cap, some of all of these funds generated can be used to fund subsidized housing or affordable housing projects and programs. For the "North York" test site in the NBLC analysis, a 4% CBC would equate to approximately \$3,840 per unit;
- **Cost of Inclusionary Zoning over Lifespan of Affordability Period is Significant:** The cost of foregone rent for an affordable unit, based on one of the scenarios from the NBLC report, over a 99-year period amounts to over \$1,060,000 per affordable unit, or \$116,600 per market unit (assuming 10% affordable set-aside), and combine for 109% of the underlying land value. These costs would, in a strong market, likely be passed onto buyers of the 'market' units;

Issues with Rental Affordability Definition

- City's proposed definition appears to be based on oversimplified data – for example, equating 1-person households with 1-bedroom renter incomes, and therefore may be ignoring average household incomes for rented 1-bedroom units occupied by 2-person households – this is understating average incomes from these smaller units, which using the City's proposed new definition would pull that affordability threshold down significantly;

Issues with NBLC Feasibility Analysis

- The NBLC analysis finds that in strong markets, the impact of IZ costs (or decrease revenues) is likely to be passed through via higher prices, while in weaker markets the impact will more likely be passed through to reduced land values. In instances where IZ policy is implemented after land acquisition has occurred, a developer either accepts a lower return, delays the project, or cancels the project. However, the City is proposing to only implement IZ in stronger areas, which based on NBLC's findings, would mean that in many cases IZ costs would be passed on through higher prices;
- NBLC's report notes that even in instances where IZ would reduce land value, this effect may reduce motivation to redevelop land, and that "investment potential [would be] undermined", and that in instances where land is already owned, the original price paid for the land would not have accounted for impacts associated with IZ, which "could create financial hardship in the development community and discourage the creation of new housing stock.";
- We have numerous questions regarding the usage of Altus Group Construction Cost Guide data, as well as questions regarding some of the cost assumptions used, which appear to be understating the costs of development;

Suggested Changes to Policy Proposal

- **Graduated IZ Rates:** The current proposal, by imposing on developments >100 units (in Downtown/Central Waterfront) and >140 units (all other areas) may create a disincentive to developments with unit counts just above the thresholds – a graduated approach to allow for mid-sized developments not have a massive cost burden at the 100th or 140th unit may be prudent;
- **Need for Incentives as per City's OP Policy:** The City's OP states that the City will provide incentives for developers providing affordable housing so as to encourage the production of affordable housing. The OP policy states that assistance could take the form of loans, grants, fees or property tax exemptions, etc.

Housing Market Strength

- **Purpose-Built Rental Market is Weakening:** The housing market has been showing some weakness of late – average rents for private rental apartments in the City have declined by between 9% to 14% in the former City (which includes most of the 'strong' market areas within the City's proposed IZ framework). Rents are also declining in Etobicoke (declines of 4% to 7%) and North York (declines of 3% to 11%);
- **Market for Rented Condominiums is Weakening:** The average rents for rented condominium apartments (as of August 2020) has fallen by approximately \$400 per month since August 2019.
- **COVID is Producing Significant Unknowns Still to be Discovered:** The impacts of COVID-19 on the housing market, particularly the high-rise market in the City of Toronto should be better understood before imposing a significant new cost burden on most new projects in the City.

DETAILED DISCUSSION

Overview of the City's Inclusionary Zoning Policy

The imposition of Inclusionary Zoning ("IZ") on new housing development in the City would see new housing developments in defined areas of the City, based on the following criteria:

- 5-10% of total residential GFA for condominium apartment developments;
- Within a PMTSA located within a strong or moderate market area;
- Exemption by size of development:
 - Developments with less than 100 dwelling units and 8,000 m² of residential GFA within the Downtown and Central Waterfront areas are exempt;
 - Developments with less than 140 dwelling units and 10,000 m² of residential GFA within all other IZ areas of the City are exempt;

The IZ policy, if adopted, would begin to apply to complete applications filed after January 1, 2022.

Municipal Finance Analysis

The introduction of IZ, ranging from 5-10% of GFA for eligible developments amounts to another charge on new housing developments in the City, some of which can also/already be used to recover funds for affordable housing.

Development Charges

Currently (as of October 2020¹), the City's DC rates for apartment dwelling units are \$45,234 per large apartment unit (2-or-more bedrooms), and \$29,758 per small apartment unit (bachelor and 1-bedroom).

The City's development charge (DC) by-law includes a significant component for Subsidized Housing. Of the City's current DC rates, approximately 6.4% is for Subsidized Housing, or \$2,892 per large apartment unit (2-bedrooms or more), and \$1,902 per small apartment unit (bachelor and 1-bedroom).

Since 2004, the Subsidized Housing component of the City's DC has grown from \$107 per large apartment unit to \$2,892 per large apartment unit, an increase of over 2600%. With the recent changes to the DC Act, particularly the removal of the existing 10% statutory deduction for 'soft service' DCs, the City's Subsidized Housing DC rates are likely to continue to increase in the coming years.

At today's DC rates (in effect until November 1, 2020), for the North York test site in the NBLC analysis (283 units on a 0.35-hectare site, valued at \$77.6 million per hectare), that development would pay \$10.6

¹ The City has a DC rate increased scheduled for November 1, 2020.

million in DCs, of which \$678,000 would be allocated for the City's capital plans for new Subsidized Housing.

Community Benefits Charges

On September 18, 2020, the Province adopted regulation O.Reg 509/20, which set out the maximum prescribed percentage for community benefits charges (CBCs) at 4% of land value as of the day before building permit.

CBCs can be levied on all developments that have both 5-or-more storeys and 10-or-more dwelling units. Therefore, there will be a significant overlap between developments that are subject to IZ as proposed as the City's forthcoming Community Benefits Charge.

According to the Development Charges Act (section 4.1), CBCs can be used for services defined as development charges services, one of which is "Housing Services". Therefore, the City can levy CBCs on most new housing developments, and utilize those funds, if so chosen, to fund affordable housing.

For the North York test site in the NBLC analysis, that development would pay \$1,086,800 in CBCs, or \$3,840 per unit. All of these funds could be used for affordable housing if the City chose to use these funds in that manner.

Parkland Dedication / Cash-in-Lieu

The City's current parkland cash-in-lieu is capped at 10% of land area, converted into land value to quantify the cash payment required. The City has initiated a review of the CIL policy, with a view to significantly increasing the CIL requirement.

For the North York test site in the NBLC analysis, that development would pay 10% CIL of the land value, or \$2,717,000, or \$9,600 per unit.

Quantifying the Full Costs of Inclusionary Zoning over 99-Year Period

The requirement to provide up to 10% of GFA as affordable housing adds significant additional costs.

For the North York test site in the NBLC analysis, the 283-unit development², assuming GFA is distributed equally among affordable and market units, would need to consist of 28 affordable units, with the remaining 254 units being market units.

Compared to the average rents for rented condominium apartment units in North York, the difference between the City's proposed maximum affordable rents and the market rents ranges from \$794 to \$1,070 per unit, per month.

² The hypothetical building includes 28 bachelor units, 113 1-bedroom units, 128 2-bedroom units, and 14 3-bedroom units.

Figure 1

Estimated Cost of Proposed Inclusionary Zoning Policy, Based on North York Site from NBLC Report

Example Development - North York Site - NBLC Analysis			City's Proposed Maximum	Market Rent <i>Dollars per Month</i>	Difference	Costs of IZ / Foregone Revenue			
Assumed Number of Units	Assumed Number of Affordable Units	Per Month <i>\$/ Month</i>				Per Year <i>\$/ Year</i>	99-Year Span <i>\$ per 99 Years</i>		
Unit Type	Units								
Bachelor	28	3	806	1,600	794	2,382	28,584	2,829,816	
1-Bedroom	113	11	1,081	1,996	915	10,065	120,780	11,957,220	
2-Bedroom	128	13	1,591	2,476	885	11,505	138,060	13,667,940	
3-Bedroom	14	1	1,759	2,829	1,070	1,070	12,840	1,271,160	
Total	283	28				25,022	300,264	29,726,136	
						Costs per Affordable Unit	894	10,724	1,061,648
						Costs per Market Unit	98	1,178	116,573
						Costs per Unit (Overall)	88	1,061	105,039

Note: "Market Rent" is based on average rents for rented condominium apartments in the City of Toronto, taken from the CMHC 2019 Rental Market Report
 Source: Altus Group Economic Consulting based on NBLC, Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy, (May 2020), CMHC Rental Market Report, Greater Toronto Area, (2019)

Over the 99-year affordability period, the amount of foregone revenue amounts to \$29.7 million. The land value of this North York site in the NBLC report is \$27.2 million, meaning that over the 99-year period, the cost of IZ equates to 109% of land value at the time of development.

For additional context, when expressed on a monthly basis, annual basis, and/or on a per unit basis, the costs of IZ are as follows:

- On a monthly basis, this amounts to a cost (in terms of foregone revenue) of approximately \$25,000 per month, or \$890 per unit, per month.
- Over the course of a year, this amounts to a cost of approximately \$300,300, or \$10,700 per affordable unit.
- Over the full proposed 99-year affordability period, this amounts to total foregone revenue of \$29.7 million³ for the 28 affordable units, or as expressed in per unit terms:
 - \$1,061,650 per affordable unit (\$29.7 million divided by 28 units),
 - \$116,570 per market unit (\$29.7 million divided by 255 units), or
 - \$105,040 per unit overall (\$29.7 million divided by 283 units).

The total life-span cost of the affordable units would be even greater than calculated here if some units are required to be provided at deeper depths of affordability.

³ Neither inflation to future market rents nor discounting applied to the calculation

Given the significant cost of providing affordable units for a 99-year period, the resulting costs over the lifespan of the units is likely to have a significant impact on pricing of market units, and increasingly stratify the City's housing market.

If the full lifespan cost of IZ per market unit were fully passed through to home prices, this would have significant implications on the number of households that could afford that market unit with IZ costs built-in compared to a market unit without IZ costs. In the North York test site example, an additional \$116,570 added onto the housing price to offset IZ costs would equate to approximately \$553 per month in additional mortgage costs (principal and interest) for the homebuyer⁴, which, based on the 30% benchmark for housing costs, would equate to a need for an additional \$22,110 in annual household income to absorb these additional costs each year. This would mean that if these market units were affordable for the 60th percentile income without the IZ costs (60th percentile household income in the City is \$82,025), these market units would then only be affordable to a household with an income at the 71st percentile (\$104,140, or \$82,025 plus \$22,110).

Proposed Revisions to Affordability Definitions

Issues with Renter Household Data

The analysis of renter household incomes by bedroom count appears to have been based on Census data on average incomes for renter households by number of persons in the household. This data for dwellings by number of persons appears to be used as a proxy for bedroom count, with 1-person renter household incomes used as a proxy for 1-bedroom renter household income.

This approach is problematic as while there is certainly some link between number of persons in a unit and the number of bedrooms in a unit, there is a significant percentage of 1-bedroom units that are occupied by 2 persons, 2-bedroom units occupied by more than two persons, etc.

The data on incomes by number of persons used to establish affordable rental definitions by unit type should be re-oriented to account for the proportion of 1-bedroom units occupied by households with more than one person, with similar calculations done for other unit types.

According to the Census, in the Toronto CMA:

- Roughly 13% of rental households occupying bachelor units (no bedrooms) include more than one person.
- Approximately 36% of rental households occupying 1-bedroom units include more than one person;
- Approximately 40% of rental households occupied 2-bedroom units include more than two people (although a significant proportion of these additional persons may be children and not contributing to the household's income).

It is assumed that similar proportions would be evident in data for the City of Toronto.

Figure 2

⁴ Based on 25-year amortization, 3% mortgage rate, monthly payments

Number of Persons in Rental Tenure Dwellings by Bedroom Count, Toronto CMA, 2016 Census

Number of Bedrooms	1 person	2 persons	3 persons	4 persons	5 or more persons	Total
	<i>Dwelling Units</i>					
No bedrooms	19,100	2,235	340	170	100	21,950
1 bedroom	189,895	79,520	17,675	7,245	2,230	296,560
2 bedrooms	50,940	99,125	50,600	32,465	15,975	249,100
3 bedrooms	10,410	21,325	30,820	25,960	20,670	109,190
4 or more bedrooms	3,625	4,865	6,520	9,425	14,300	38,735
Total	273,975	207,070	105,955	75,265	53,275	715,540

% of Dwelling Units by # of Bedrooms	<i>Percent</i>					
	No bedrooms	87.0%	10.2%	1.5%	0.8%	0.5%
1 bedroom	64.0%	26.8%	6.0%	2.4%	0.8%	100.0%
2 bedrooms	20.4%	39.8%	20.3%	13.0%	6.4%	100.0%
3 bedrooms	9.5%	19.5%	28.2%	23.8%	18.9%	100.0%
4 or more bedrooms	9.4%	12.6%	16.8%	24.3%	36.9%	100.0%
Total	38.3%	28.9%	14.8%	10.5%	7.4%	100.0%

Source: Altus Group Economic Consulting based on 2016 Census

Overview of NBLC Market Analysis Report

Incidence of Costs of IZ – Land Prices vs. Housing Prices

The NBLC report notes the potential incidence of increased costs / decreased revenues due to IZ:

...where costs increase – or revenues decrease, in the case of IZ – a proportional increase in pricing or decrease in land value must occur to keep a project viable.

The NBLC report estimates the impacts of IZ in terms of impacts on residual land value. However in numerous places throughout the NBLC report, it is noted that the effects of the IZ costs will be actually felt through some mix of increased prices or decreased land values, with the degree to which each is impacted depending on numerous circumstances such as market strength.

The use of residual land value in NBLC's estimates of impact appears to be misinterpreted as a conclusion that says that IZ costs can be fully offset through reduced land values, and no costs would be passed on to homebuyers.

However, a careful reading of the NBLC report reveals the numerous nuances and qualifiers to the approach taken in the NBLC model – in fact, as NBLC states, the likely impact of IZ on strong markets is that costs will be pushed through to higher prices for market units, with weaker markets seeing the impacts on land value:

It is possible that impacts associated with IZ will be absorbed over time, without impacting the viability of development, or land values. However, in markets where price growth is not strong, with return expectations and costs relatively fixed or inflating in parallel, the impact of a revenue decrease is largely compensated for in land value.

The only exception to this is where the cost increase occurs after the land acquisition has occupied. In which case, a developer either: accepts a lower return, delays the project until the market is more favourable; or, cancels the project.

As the City's proposed policy is to impose IZ only in strong and moderate market areas, the implications are that in these stronger market areas, costs relating to IZ will be primarily passed on through higher prices, or where land has already been acquired before IZ was imposed, the project is likely to be delayed or cancelled.

In weaker areas, where it is more likely that land values are affected (because the market is less likely to respond to higher prices in these areas), the City does not appear to be proposing that IZ apply to developments. Therefore, if IZ is not imposed in weaker areas, and these are the areas where land value would be more likely to adjust, then the theory that IZ costs will be absorbed through lower land values is not valid for where the City is proposing to implement IZ. Instead, weaker areas where land values are more likely to be affected the reduced land values themselves is not the outcome, but in many cases, an influence in the ultimate outcome of projects getting delayed or cancelled until such time that higher prices can be obtained to offset IZ costs.

The theory of increased costs being offset by lower land values is often cited when DC rates are increasing. However, similar to the opinion expressed by NBLC, a 2002 report by Hemson Consulting "The Effect of Development Charge Discount Policies on Competitiveness of the Halton Market", found that:

On the cost side, land price might adjust to compensate for increased DCs. However, in the short run, the impacts are likely to be seen...some owners might choose to withhold land from the market unit price increases in the future."

One of the findings of the NBLC report confirms that even if IZ costs would reduce what developers pay for land, the consequence of reduced land values is that the 'motivation' for developing land is reduced and investment potential is 'undermined'.

The primary impact of an IZ policy is to reduce the development revenue from a project. When revenues are decreased, the amount of developer can pay for land decreases. When land value is reduced below that of the existing use of the land, the motivation for the land to be redeveloped, and for housing to be created, is similarly reduced and investment potential undermined. (page iv)

The NBLC report also notes that land holdings already owned by a developer, prior to the introduction of IZ could "create financial hardship" in the development community:

A key issue to anticipate is the timing of when land was purchased. If, for example, land was purchased in 2019 and a policy was introduced in 2020, the 2019 price would not have accounted for reduced revenue impacts associated with IZ. This could create financial hardship in the development community and discourage the creation of new housing stock (page v).

If the impacts of IZ is to reduce investment potential of sites throughout the City, a reduction in potential housing supply is likely to have significant consequences on the availability of housing in the City.

Potential Market Consequences of Inclusionary Zoning

From a high-level perspective, the following presents some potential consequences of IZ on the City's housing market:

- Ultimately, pricing of market units would have to absorb the cost of IZ in order for developers to satisfy minimum business risk-adjusted returns;
- In turn, if the market cannot absorb significant further price increases, developers will not proceed with projects, which in turn would have a further negative impact to future housing supply;
- Smaller projects (less than 100 or 140 units) in premium locations will be explored to avoid the IZ requirement, thereby inhibiting potential future housing supply;
- In many cases, depending upon location strength, the density attributed to IZ would be valued at \$0 per square foot buildable (or less) by developers given that the all-in costs exceed the capitalized value of IZ units. Notwithstanding, landowners, for the most part, will expect to achieve selling prices that are similar to or greater than recent transaction activity. This perceived spread in land value would effectively collapse land transaction activity, again inhibiting future housing supply;
- Development approval periods regularly take 2-4 years to achieve, so developers who acquired lands in the past few years may be penalized if they cannot issue formal development applications prior to IZ implementation date;
- Significant municipal DC, parkland and CBC discounts or exemptions would likely be required for IZ density to be a realistic option for developers to take on. Otherwise, developers may focus attention on adjacent or surrounding suburban markets that do not impose IZ on new developments.

Issues and Questions Regarding Modelling in NBLC Report

- The modelling methodology appears to be flawed, as the residual land values reported by NBLC for the 'test sites' are generally well below actual land transactions in 2019 and 2020 YTD for all 11 sub-market locations in Toronto;
- The figure below reviews key input assumptions relied upon by NBLC and contrasts NBLC site land value estimates versus a conservative land value check by Altus, based on a rough benchmark for estimating land value for development sites (10% of condominium pricing) – in all instances, the NBLC land value estimate is well below market reality for the built form assumed by NBLC; and
- Since the difference between the NBLC land values and the Altus estimates of land value is greater than 10% in all instances, the inclusion of a 10% IZ cost would entail that none of the 11 areas studied would be considered viable.

Figure 3

Analysis of Land Values Used in NBLC Inclusionary Zoning Evaluation Report

Test Site Area	Average Unit Size <i>Sq. Ft.</i>	Number of Units	Net Saleable Area <i>Sq. Ft.</i>	GFA with 15% Gross-Up Factor <i>Sq. Ft.</i>	NBLC Existing Site Land Value	Implied Site Value (\$ / sf buildable) <i>\$/SFB</i>	Condo Pricing <i>\$/SF</i>	Altus High-Level Order of Magnitude Check (10% land value relative to condo pricing) <i>\$/SFB</i>	% Difference - Altus Check vs. NBLC Implied Value <i>Percent</i>	If % Difference >10%, then Development with IZ Not Viable
Etobicoke Centre	700	214	149,800	172,270	10,070,000	58.5	840	84.0	44%	Not Viable
Stockyards/Junction	700	269	188,300	216,545	11,350,000	52.4	925	92.5	76%	Not Viable
Weston (N/A)	725	218	158,050	181,758	5,330,000	29.3	750	75.0	156%	Not Viable
Finch West	700	210	147,000	169,050	6,850,000	40.5	800	80.0	97%	Not Viable
Yonge Eglinton Centre	700	239	167,300	192,395	19,310,000	100.4	1,250	125.0	25%	Not Viable
North York Centre	700	387	270,900	311,535	27,170,000	87.2	1,200	120.0	38%	Not Viable
Downtown	650	570	370,500	426,075	28,270,000	66.3	1,400	140.0	111%	Not Viable
Toronto West	700	348	243,600	280,140	19,880,000	71.0	1,100	110.0	55%	Not Viable
Toronto East	725	31	22,475	25,846	2,430,000	94.0	1,150	115.0	22%	Not Viable
Golden Mile	725	262	189,950	218,443	13,560,000	62.1	950	95.0	53%	Not Viable
Scarborough Centre	725	392	284,200	326,830	5,790,000	17.7	875	87.5	394%	Not Viable

Source: Altus Group based on NBLC, Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy, (May 2020)

Issues and Questions Regarding Cost Assumptions in NBLC Model

The NBLC, in modelling the impacts of IZ, utilized costing assumptions from Altus Group’s annual Construction Cost Guide. Based on a review of the NBLC report from Altus Group Cost Consulting, we have the following questions and comments:

- Section 5.3 states the financial model is premised on a construction loan in the amount of 75% of construction costs. This is not typical - a more typical financing structure is for a loan to be roughly 65% of total development costs including construction, softs and land. The impact of this assumption is that the financing budget in the NBLC model will be understated;
- Development charges based on current bylaw with no indexing or acknowledgment that the way the City calculates DCs (due to Bill 108 and Bill 197) are changing which will result in an increase;
- Education DC rates are out of date, they increased on May 1, 2020 with more increases scheduled and published;
- The report includes both Parkland CIL (at 10%) and CBC (at 15%), even though the CBC when proposed by the Province at 15% would have included parkland acquisition. The CBC has since been re-oriented to be 4%, but without parkland acquisition included in that amount. However, the City’s parkland CIL policies may be under review, so the 10% assumption should be tested at higher amounts in case the City increases their CIL cap on IZ eligible sites;
- Commissions are noted as being 2.5% - if this is meant to be 2.5% of revenue it is too low, typically expectations would be 4.5-5.0% of net revenue;
- The assumptions to the model list consultants, management fees, legal etc at 14.5%. It is unclear what the 14.5% is being applied to;
- The construction budgets are noted as being based on the Altus Group Construction Cost Guide 2020 (“the 2020 Cost Guide”) and using the mid-point of ranges for various asset classes. However, the 2020 Cost Guide was published in January 2020 and the market has changed since then. The NBLC report only makes brief mention of changing market dynamics as a result of COVID-19. Loss of productivity, changing work sequencing, increased site overheads, supply chain issues all impact the cost of construction and are with us until the pandemic subsides;

- The 2020 Cost Guide ranges are all based on Gross Construction Area (GCA) of a building. The NBLC report only references Gross Floor Area (GFA). However, the GCA is usually 7-12% higher than GFA. If the NBLC report has not adjusted for the difference the construction budgets in the model will be understated by 7-12%;
- The NBLC report notes that a cost inflator assumption of 2% per annum was used in their model. However, cost escalation in the last number of years has been high and over the 2016-2019 period, it was estimated to be in the range of 24-30%. A more reasonable assumption would be a cost inflation rate closer to 4% per annum; and
- Building permit calculation assumptions do not list the underground parking rates. This should be clarified.

Other Questions Regarding the NBLC Analysis

In addition to the questions specifically dealing with cost assumptions and inputs to the model, we also have the following additional general questions on the NBLC model:

- The NBLC report uses a residual land value model to estimate impacts on feasibility. However, we would like to request that a second set of models be run to test how housing prices for market units would have to adjust to reach the same feasibility as in the base models without IZ. This alternative approach would give a sense of the magnitude of the effect that IZ would have on housing prices to offset increased costs / decreased revenues, and in many cases the costs of IZ will be passed onto new home buyers through increased prices, where the market will allow;
- The unit counts listed as base assumptions in Table 2 and Table 5 do not match. For example, in Table 2, the Downtown site has 640 units, but in Table 5 is shown as having 570 units; and
- The test site for Yonge & Eglinton is 2,000 square metres (0.20 hectares), while the Downtown site is 2,600 square metres (0.26 hectares) – it seems counterintuitive that the hypothetical site in the Downtown is larger than the site in the Yonge & Eglinton area;

Suggestions for Revisions to Proposed IZ System

Graduated Approach to IZ Thresholds

The City's current proposal would see buildings with more than 100 units in the Downtown and Central Waterfront and more than 140 units in all other areas within which IZ would be applied.

This presents a problem in that projects with just over 100 units (or 140 units) will be hit with a significant cost burden that a building just below the thresholds would. This is likely to lead to buildings at or just above 100 units to become especially problematic from a feasibility perspective.

Providing Incentives

In return for participating in an IZ provision, developing landowners should be provided with incentives that can offset some of the costs incurred.

The City's OP includes a policy stating that the City will provide assistance to encourage the production of affordable housing:

4. Where appropriate, assistance will be provided to encourage the production of affordable housing either by the City itself or in combination with senior government programs and initiatives, or by senior governments alone. Municipal assistance may include:

a) in the case of affordable rental housing and in order to achieve a range of affordability, measures such as: loans and grants, land at or below market rates, fees and property tax exemptions, rent supplement and other appropriate assistance.

b) in the case of affordable ownership housing provided on a long term basis by non-profit groups, especially affordable low rise family housing, measures such as: land at or below market rate, fees exemption and other appropriate forms of assistance with priority given to non-profit and non-profit co-operative housing providers.

Analysis of Housing Market Strength and Market Effects

Rental Market Strength - Declining Rents

According to the September 2020 Rent Report from Bullpen Consulting, average asking rents in the City of Toronto listed on Rentals.ca have declined significantly from a year ago, with asking rents for 1-bedroom units in the former City of Toronto decreasing by 13.8% and asking rents for 2-bedroom units decreasing by 8.9% year-over-year. Similarly, the rents in Etobicoke and North York are also declining, while changes to asking rents in Scarborough are mixed.

Figure 4

	1-Bedroom Units	2-Bedroom Units
Toronto	-13.8%	-8.9%
Etobicoke	-3.9%	-7.4%
North York	-3.5%	-10.8%
Scarborough	+4.4%	-1.8%

Condominium Market Strength

The rents for average rented condominium apartments have decreased by 14% within Downtown Toronto and have decreased by 11% in the “Outer 416” market of Etobicoke, East York, North York, York and Scarborough.

A decrease in the rental rates being obtained by owners of condominium apartment units may dampen the strength of the market for new condominium apartment projects, as units may be less attractive to investors seeking to acquire units to rent on the secondary rental market.

Market Effects

Inclusionary zoning policies have the effect of creating market distortions. These market distortions can lead to lower provision of housing across the community, ultimately eroding housing affordability (for the market units in the developments) rather than helping it.

As an example, applying IZ policies only to larger developments can make bringing larger or higher density projects to market less feasible, meaning that the municipality may find an emerging shortage of larger housing developments in the long term.

Large scale residential projects have various benefits, including:

- They provide a more diverse mix of housing. Large scale housing developments provide a greater mix of housing types than smaller developments; providing homes for families in different income ranges, creating a diverse community; and
- They encourage 'brownfield' re-development. Many cities have brownfield lands (obsolete lands in older industrial areas) that would benefit from new uses. The economics of brownfield redevelopment generally requires large scale developments.

Thus, inclusionary zoning policies have the potential to discourage larger housing developments, denying those benefits and delaying developments of vacant brownfields.

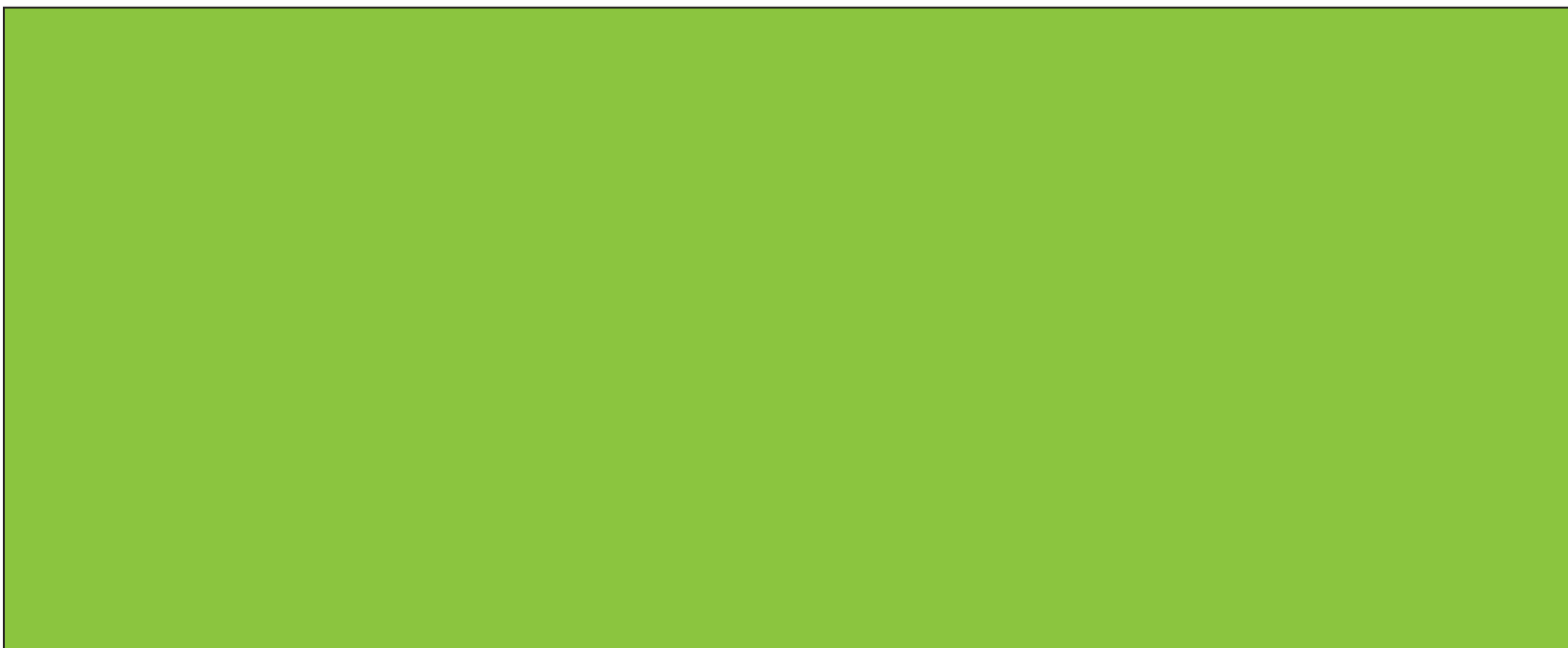
Financially punitive inclusionary zoning policies may force residential developers to forego various larger, higher-density housing projects in favour of smaller, lower density developments which are not the target of inclusionary zoning policies or are located in surrounding municipalities that do not have inclusionary zoning requirements.

Preliminary Conclusions

Given the recent and ongoing significant changes in the rental and condominium markets (for both rented units and owned & occupied units) the NBLC analysis may need to be revisited to test the sensitivity of their initial findings for scenarios that attempt to model potential long-term effects of COVID-19 on the high-rise residential market.

Additionally, the NBLC analysis should consider other unintended effects on the housing market beyond the significant changes already being felt in the City due to the COVID-19 pandemic.

**Affordable Housing in the
City of Toronto - A Responsibility We All Share**
Appendix D



INCLUSIONARY ZONING

FEASIBILITY ANALYSIS

Prepared by: FINNEGAN MARSHALL INC.

Issued: June 1, 2021



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326 DAVENPORT ROAD SUITE 200
TORONTO ON M5R 1K6

June 1, 2021

To whom it may concern,

Re: Inclusionary Zoning– Feasibility Analysis

We have reviewed the proposed Inclusionary Zoning (IZ) policies dated September 2020 as issued by the City of Toronto in particular the City's Affordable and Mid-Range Rent Definitions dated Sept. 22, 2020; and the Inclusionary Zoning Draft Official Plan Amendment and Zoning By-law Amendment dated Sept. 4, 2020 and the Inclusionary Zoning Stakeholders Meeting May 7, 2021. We have been requested to comment on the financial impact of the proposed changes on a high-rise residential condominium project within high transit areas in the City of Toronto. As such, we have based our findings on a high-rise residential project within the Yonge & Eglinton corridor . In this regard, we confirm that Finnegan Marshall Inc. (FM) are providing construction cost services on approximately 150-200 projects either under construction or in planning stages in the City of Toronto. We are specialists in not only construction costs but also all project costs including Land and Soft costs that make up the complete project budget. We are also fully knowledgeable with regards to prevailing sales prices as well as requirements from Lender's to achieve funding approvals.

The following are key assumptions that will assist the reader when reviewing this report:

1. High-Rise Residential Condominium – Based on 300,000 sq. ft. GFA as defined by City of Toronto By-Law of which 270,000 sf is noted to be market and 30,000 sf to be affordable ownership.
2. Average suite size of approximately 650 sq. ft. which we confirmed both through a sampling of our internal projects.
3. Land Cost Pre Inclusionary Zoning – Assumed at \$215 per sq. ft. based on Yonge & Eglinton average land cost.
4. Average revenue per sq. ft. sales price pre-inclusionary zoning carried at \$1,250 per sq. ft based on Yonge & Eglinton average in correlation with the land cost identified in item 3.
5. Affordable Units – IZ requires that 5-10% of units be affordable for ownership projects. The Inclusionary Zoning stakeholder meeting May 7, 2021 on page 20 notes the following proposed Affordable Ownership definition: *"Affordable ownership housing refers to housing which is priced at or below an amount where the total monthly shelter cost (mortgage principal plus interest –based on a 25-year amortization, 10% down payment, and the chartered bank administered mortgage rate for a conventional 5-year mortgage as reported by the Bank of Canada at the time of application –plus property taxes calculated on a monthly basis) does not exceed 30 percent of gross annual income for households within the moderate income range. More specifically:*
 - *bachelor units must be affordable to households with incomes no higher than the 30th percentile;*
 - *one bedroom units must be affordable to households with incomes no higher than the 40th percentile;*
 - *two bedroom units must be affordable to households with incomes no higher than the 50th percentile;*
and
 - *three bedroom units must be affordable to households with incomes no higher than the 60th percentile.*

For the purpose of this report, we have calculated the affordable units at 10% of the GFA as per the prescribed proposed definition affordable ownership rates included on page 21 of the Inclusionary Zoning stakeholder meeting May 7, 2021, as follows:

UNIT TYPE	CURRENT DEFINITION: PRICE & INCOME SERVED	PROPOSED DEFINITION: PRICE & INCOME SERVED
Bachelor (Price)	\$230,300	\$197,900
Bachelor (Annual Income)	\$48,440	\$44,452
One Bedroom (Price)	\$272,200	\$259,000
One Bedroom (Annual Income)	\$57,240	\$58,286
Two Bedroom (Price)	\$315,900	\$321,100
Two Bedroom (Annual Income)	\$66,440	\$73,629
Three Bedroom (Price)	\$358,900	\$407,000
Three Bedroom (Annual Income)	\$75,480	\$91,611

6. Section 37/Community Benefits Charges - For the Toronto citywide high-rise condominium projects, we have assumed that the up zoned area would be calculated at 4% of the land value.
7. City of Toronto Development Charges have been carried at current Nov 1, 2020 rates.

Our detailed analysis concludes that there will be a huge reduction in project viability, to the extent that the low resultant profit levels post IZ may not be able to be financed by Banks; nor will the profit returns be acceptable to Developer's and their equity investors. Prior to the implementation of the IZ policy, for high-rise condominium projects within high transit areas in Toronto, in this example the Yonge & Eglinton Corridor, to be deemed viable would be based on a land cost of \$215 psf and average revenue of \$1,250 psf, we calculate that the profit levels are approximately 11% of budget.

As experienced in the current Toronto market, these profit levels have already been considerably reduced from historic levels largely due to increasing City costs (Development Charges, Parkland, Section 37/Community Benefits Charge, Dewatering, Lane Occupancies etc.) and construction cost escalation. Another critical element of reduced profitability occurs when sales prices increase, as HST rebates are not indexed, the HST percentage within the sales price (that goes to the Provincial and Federal Governments) substantially increases, leaving a reduced percentage of the sale price available to the Developer.

Based on our calculations, to achieve a profit return on cost of approximately 11% post-IZ, the effective land cost, in the high transit areas, the Yonge & Eglinton corridor in the example, would need to reduce by approximately 20% or \$44 psf to \$171 psf GFA. Alternatively, the revenue for the market units would need to increase by \$60,000 per unit from \$1,250 psf to \$1,341 psf which is an increase of \$91 psf NSA.

Yours truly,

FINNEGAN MARSHALL INC.



Per: Niall Finnegan



TABLE OF CONTENTS

Appendix A -	Condo Assumptions, Summary & Conclusions
Appendix B -	Condo Summary
Appendix C -	Revenue Assumptions, Summary & Conclusions
Appendix D -	Rental Summary



Appendix A:
CONDO ASSUMPTIONS, SUMMARY & CONCLUSIONS

Condo Assumptions, Summary & Conclusions

General Assumptions

- Statistics – 300,000 sf GFA of which 270,000 sf market & 30,000 sf (10%) to be affordable.
- Project Location – Midtown Toronto (Yonge & Eglinton).

<u>CONDO SUMMARY</u>		A	B-A	B
		PRE IZ	VARIANCE	POST IZ 10% AFFORDABLE
1 GFA (sf)	- Market Units	300,000 sf	-30,000 sf	270,000 sf
	- Affordable Units	0 sf	30,000 sf	30,000 sf
2 NSA (sf)	- Market Units	255,000 sf	-25,040 sf	229,960 sf
	- Affordable Units	0 sf	25,040 sf	25,040 sf
3 Suites	- Market Units (Avg +/- 650 sf)	392 units	-36 units	356 units
	- Affordable Units (Avg 700sf)	0 units	36 units	36 units
4 Revenue Assumptions	- Market Units	\$1,250 sf	\$0 sf	\$1,250 sf
	- Affordable Units *	\$0 sf	-\$814 sf	\$436 sf
* - 1 Bedroom	\$259,000			
- 2 Bedroom	\$321,100			
- 3 Bedroom	\$407,000			
- Average Affordable (700 sf)	\$305,000			
- Average Market (650 sf)	\$813,000			
5 Revenue	- Market Units	\$307,862,986	(\$30,019,544)	\$277,843,442
	- Affordable Units		\$10,869,816	\$10,869,816
	- Combined Units	\$307,862,986	(\$19,149,728)	\$288,713,258
	- PSF Market Unit Increase		\$91 sf	
	- Per Market Unit Increase		\$60,000	



Appendix B:
CONDO SUMMARY

CONDO SUMMARY

<u>PROJECT BUDGET SUMMARY</u>	PRE IZ	VARIANCE	POST IZ 10% AFFORDABLE
PROJECTED REVENUE	307,862,986	(19,149,728)	288,713,258
PROJECT BUDGET	276,475,000	(17,200,000)	259,275,000
PROJECTED PROFIT	31,387,986	(1,949,728)	29,438,258
PROFIT % BUDGET	11.35%	0.00%	11.35%
TO MAINTAIN PROFIT POST IZ, EITHER LAND REDUCTION OR REVENUE INCREASE WOULD BE REQUIRED AS FOLLOWS:			
LAND COST REDUCTION	64,500,000	(13,150,000)	51,350,000
SALES PRICE INCREASE	\$1,250 sf	\$91 sf	\$1,341 sf
<u>BUDGET VARIANCES DETAIL</u>	PRE IZ	VARIANCE	POST IZ 10% AFFORDABLE
1 Land Cost (\$215 psf v \$171 psf = \$44 psf Reduction)	64,500,000	(13,150,000)	51,350,000
2 Land Transfer Tax	2,572,950	(526,000)	2,046,950
LAND	67,072,950	(13,676,000)	53,396,950
29 TARION Enrolment	449,060	(11,880)	437,180
CONSTRUCTION	449,060	(11,880)	437,180
58 Sales Commissions - Market Lead Brokers	3,625,041	(354,308)	3,270,733
59 Sales Commissions - Market Outside Brokers	12,083,469	(1,181,027)	10,902,442
MARKETING & SALES	15,708,510	(1,535,335)	14,173,175
62 Bank Loan Arrangement Fee	1,163,264	(67,860)	1,095,404
63 Bank Loan Stand By Fee	697,213	(40,673)	656,540
69 Deposit Insurance Fees	1,133,300	(68,240)	1,065,060
70 Land Loan Finance Fee	580,500	(118,350)	462,150
71 Land Loan Interest	4,585,950	(934,965)	3,650,985
72 Construction Loan Interest	10,153,956	(592,340)	9,561,616
FINANCE	18,314,183	(1,822,427)	16,491,756
74 Occupancy Income Residential Units	(1,475,327)	69,348	(1,405,979)
75 Interest Earned on Deposits	(169,295)	16,575	(152,720)
OPERATING COSTS & INCOME	(1,644,622)	85,923	(1,558,698)
79 Soft Cost Contingency	4,150,088	(240,282)	3,909,807
CONTINGENCY	4,150,088	(240,282)	3,909,807
TOTAL PROJECT BUDGET VARIANCE		(17,200,000)	



Appendix C:
RENTAL ASSUMPTIONS, SUMMARY & CONCLUSIONS

Rental Assumptions, Summary & Conclusions

General Assumptions

- Statistics – 300,000 sf GFA of which 270,000 sf market & 30,000 sf (10%) to be affordable.
- Project Location – Midtown Toronto (Yonge & Eglinton).

		A	B-A	B
<u>RENTAL SUMMARY</u>		PRE IZ	VARIANCE	POST IZ 10% AFFORDABLE
1 GFA (sf)	- Market Units	300,000 sf	-30,000 sf	270,000 sf
	- Affordable Units	0 sf	30,000 sf	30,000 sf
2 NRA (sf)	- Market Units	255,000 sf	-25,040 sf	229,960 sf
	- Affordable Units	0 sf	25,040 sf	25,040 sf
3 Suites	- Market Units (Avg +/- 650 sf)	392 units	-36 units	356 units
	- Affordable Units (Avg 700sf)	0 units	36 units	36 units
4 Revenue Assumptions	- Market Units	\$3.50 sf	\$0.00 sf	\$3.50 sf
	- Affordable Units *	\$0.00 sf	-\$1.45 sf	\$2.05 sf
	* - 1 Bedroom			\$1,090 per suite per month
	- 2 Bedroom			\$1,661 per suite per month
	- 3 Bedroom			\$1,858 per suite per month
5 Revenue	- Market Units	\$226,777,386	(\$22,174,017)	\$204,603,368
	- Affordable Units		\$8,738,911	\$8,738,911
	- Combined Units	\$226,777,386	(\$13,435,106)	\$213,342,279



Appendix D:
RENTAL SUMMARY

RENTAL SUMMARY

	A	B-A	B
<u>EXECUTIVE SUMMARY - RENTAL</u>	PRE IZ	VARIANCE	POST IZ 10% AFFORDABLE
PROJECTED REVENUE	226,777,386	(13,435,106)	213,342,279
PROJECT BUDGET	276,585,000	(12,460,000)	264,125,000
TRENDED NOI	8,504,152	(394,580)	8,109,572
Market Residential NOI	8,504,152	(831,526)	7,672,626
Affordable Residential NOI	0	436,946	436,946
TRENDED YIELD	3.07%	0.00%	3.07%
LAND VALUE AND/OR REDUCED PROFIT	64,500,000	(9,050,000)	55,450,000
<u>BUDGET VARIANCES DETAIL</u>	PRE IZ	VARIANCE	POST IZ 10% AFFORDABLE
1 Land Cost	64,500,000	(9,050,000)	55,450,000
2 Land Transfer Tax	2,572,950	(362,000)	2,210,950
LAND	67,072,950	(9,412,000)	57,660,950
0			
55 Leasing Commissions - Market Units	446,250	(43,820)	402,430
MARKETING & SALES	446,250	(43,820)	402,430
0			
57 Bank Loan Arrangement Fee	1,259,360	(60,743)	1,198,618
58 Bank Loan Stand By Fee	645,826	(31,150)	614,676
64 Land Loan Finance Fee	580,500	(81,450)	499,050
65 Land Loan Interest	4,585,950	(643,455)	3,942,495
66 Construction Loan Interest	11,495,700	(554,470)	10,941,230
FINANCE	18,567,336	(1,371,268)	17,196,069
0			
69 Soft Cost Contingency	3,068,634	(100,913)	2,967,721
CONTINGENCY	3,068,634	(100,913)	2,967,721
0			
73 H.S.T. on Self Assessment	19,268,000	(1,532,000)	17,736,000
HARMONIZED SALES TAX	19,268,000	(1,532,000)	17,736,000
TOTAL PROJECT BUDGET VARIANCE		(12,460,000)	