BUILDING A BETTER GTA TOGETHER

Presentation To Standing Committee on the Legislative Assembly & Proposed Amendments

Bill 109, the More Homes for Everyone Act

April 11, 2022

DAVE WILKES:

Good afternoon Chair, and members of the Committee.

My name is Dave Wilkes and I am the President & CEO of the Building Industry and Land Development Association, also known as BILD.

It is important to note for transparency, that I was a member of the Housing Affordability Task Force. However, I am here today in my capacity as BILD's CEO and will bring the perspective of our industry on how to increase housing supply to address the affordability issues currently being experienced in the GTA.

BILD is the voice of the land development, building and professional renovation industry. We have more than 1,300 members. Our industry is essential to the GTA's long-term economic strength and prosperity, especially as we recover from the stresses brought about by COVID-19. In 2021, the sector contributed over $60 billion to the economic activity of the Greater Toronto Area. This economic activity helped support over 235,000 person- years of employment in the region and provided $17 billion in wages, salaries and employee benefits.

Thank you for the opportunity to speak to *Bill 109, the More Homes for Everyone Act,* which takes significant steps to address the housing supply crisis in the GTA. The challenge to provide housing that Ontarians can afford is a generational issue.

I would also like to emphasize that Ontario's housing supply crisis is the most acute in the GTA, but as families and people leave the GTA to other parts of the province in search of housing they can afford, we are literally exporting the crisis throughout Southern Ontario. And at the same time, we are undermining the competitiveness of the economic engine of Ontario and Canada.

Building on the Housing Supply Action Plan of 2019, and recognizing the path to addressing the housing crisis from the recommendations of the Housing Affordability Task Force, Bill 109 brings forward positive steps that will enable the GTA to turn a corner on supply.

We all recognize that the solutions will need to be long-term, incremental, and will require a concerted effort between all levels of government and our industry to make it faster, less expensive and more efficient to bring more housing supply to market. That is why the creation of a Housing Supply Working Group is the right approach given the municipal focus of work and the implementation required to support the initiatives of this new legislation. This also acknowledges that the industry is a key partner in building communities that provide the right balance of housing mix and choice for Ontarians. We look forward to being invited to participating in, and contributing to, this important forum.

I would like to take my time today to do two things: to address our support for many areas of the proposed Bill, and highlight some areas where as more work needs to be done to facilitate new growth.

Transparency on municipal reporting – government fees and charges

A 2019 study undertaken by Altus Economic Consulting for our Association showed that the combined burden on the new homeowner of government fees, taxes and charges is almost 25 per cent of the cost of a new home in the GTA. For low rise this is the highest level of taxation in North America and for high-rise we have the dubious distinction of being tied with the City of Vancouver for the highest tax burden on new

apartments. I would like to stress that as these are taxes and charges layered on by different levels of government - this is tax on tax on tax.

A year later, we asked Altus to review trends in the way municipal charges are collected, used, and how much of those charges remain in reserve funds. The study showed that development charges in the GTA increased by an average 156% since 2009, and that by the end of 2019, the municipalities studied had a combined $5b in their DC, parkland and Section 37 reserve funds. This $5b represents a swelling of 70 percent of funds collected but not used. As we only looked at 16 of the GTA municipalities, the actually cash that municipalities have collected and not used, is likely several billion more. This all represents a substantial backlog in growth-related infrastructure that's already been paid by new housing – and therefore by new home owners - and its' money that is waiting to be spent on amenities, infrastructure, public transportation and services that would support new communities.

In this context, BILD supports Bill 109's initiatives related to increasing transparency and municipal reporting around development charges and other fees. We look forward to seeing the outcome of this initiative as we continue to work with municipalities on their related by-law reviews to ensure that our communities benefit from taxes on new homes and that these taxes do not place an unfair burden on new home affordability.

Parkland CAP

This same Altus study that I just referenced also showed a significant mismatch between parkland reserves, where, based on a 2015 to 2019 period, the municipalities studied received a total of $193m per year in parkland revenues, but spent only $108m annually. An interesting fact is that the City of Toronto has over $1 billion sitting in its parkland CIL reserves, an increase of over $800 million since 2009. This eye popping 372% increase in reserves essentially means that the city is charging new home owners tens of thousands of dollars each for parks that they are not providing, while at the same time accumulating a surplus of almost $400 for every man, woman and child in the city. This does beg the question how any municipality can justify

continuing to collect these monies when housing affordability is such an issue, what they plan to do with this money, and more importantly, is this not simply a perversion of the policy intent of the original legislation?

BILD has always advocated that there should be incentives, in the form of a parkland CAP, for development that supports provincial objectives of increased densities and added housing supply in areas that have the infrastructure to support it. BILD supports the introduction of a new parkland rate CAP of 10% of the land or its value for sites of 5 hectares or less, and a parkland CAP of 15% for sites greater than 5 hectares for transit oriented communities, which has been included in the proposed provincial legislation for the first time.

However, with so many municipalities currently reviewing their parkland charges, we are seeing proposed increases of an additional $25,000 per unit on average, and that's on top of the existing rate of $45,000 per unit in Markham, for example. Again to use the Markham example this increases translates to almost $10m on a typical development site. That is why our recommendation to you today is to go beyond what we see in the proposed legislation for parkland, and strongly consider extending the proposed parkland CAP to areas beyond just the transit oriented communities in order to assist with much needed housing supply and containing addition costs for the new home purchaser.

Approvals, Lack of Municipal Decisions and Fee Refunds

We are very pleased and supportive of the measures proposed to Bill 109 to introduce accountability and timelines to municipal approvals. The Planning Act currently requires municipalities to turn around approvals in following timeframes:

- **Official Plan Amendment in 120 days**
- **Zoning By-Law Amendment in 90 days**
- **Plan of subdivision in 120 days**
- **Site plan approval 30 days**

In 2020, we commissioned a municipal benchmarking study that looked at how long it takes for municipalities to turn around applications and provide approvals. The study clock only started when the municipality had deemed the application to be complete, meaning the municipality had deemed they had all the information and data required to make a decision.

The study found that no municipality studied met the required timelines, and there were no implications for missing the deadlines. Worse was that municipalities at best took 3 times the maximum outlined in the Planning Act, and at worst took 29 times as long (site plan in Toronto 2.5 years vs the mandated 30 days). The study also estimated that these long approval times can add up to $87,000 to a typical single family home in the GTA, and over $60,000 for a high-rise apartment. This study was pre-COVID and I can assure you the situation has gotten worse, not improved.

It is important to note that processing development applications is a fee for service exercise, not supported by tax payer's dollars, but rather by the tens to hundreds of thousands of dollars in fees per project charged by a municipality to process these applications. Should municipalities require more resources to expedite and meet the timeframes, they can access those without impacting the rate payer.

The measures proposed by Bill 109 – to refund applicants fees if timelines are not met - will address this challenge, if these measures are respected by municipal governments. The measures recognize the implications of municipalities failing to meet regulated timeframes on housing supply and on affordability. They introduce a consequences for failing to meet regulated timeframes, they recognize that municipalities are the ones who can address the deficiencies and inefficiencies within their processes and lastly as a fee for service process, they have access to the monetary resources to do so. We strongly support these measures, along with the delegation of site plan approval to municipal staff for approval.

I will caution this committee that almost immediately after the Bill was tabled, we were hearing from municipalities that the above provisions were unfair and

unreasonable and simply were impossible to meet. With all due respect Madam Chair, this is not acceptable. The legislation simply asks municipalities to do what all of us here are asked to do every day, our jobs. If these tasks are not fulfilled, again like all of us here today, there will be a review of our performance. To indicate that this is not possible is incredibly troubling and does not respect and acknowledge that fact that fundamental change in both the culture and processes we use to approve new housing is required. To do otherwise is an abdication of responsibility and should not and cannot be condoned.

Inclusionary Zoning

Despite the many positive steps in Bill 109, BILD was disappointed not to see direct action or reference to several areas affecting housing supply and affordability such as those around inclusionary zoning. Municipalities are currently creating IZ policies that unfairly place the entire burden on one sector, and ultimately on its customers, as prices increases always flow to the end price.

The current Toronto IZ policy is an aberration, unique in North America. It penalizes the buyers of market rate housing by $66,000 to $116,000 over the life of the home, by requiring them, and only them, to subsidize the cost of "affordable" below market units. In future iterations of the Housing Supply Action Plan, we will need to see legislative changes that make sure responsibilities for IZ policies are shared with municipalities. To address the inequities in City of Toronto's proposed by-law these changes need to be implemented prior to September 2022, when the City's by-law takes effect.

Allow me to be clear – BILD supports IZ, but the cost of providing below market housing is a societal one. Municipalities cannot be allowed to abdicate their responsibility. We need a partnership model with incentives, with measures to increase densities and equitable policies that don't see the burden of IZ units being subsidized by market units, which is the practice all the municipalities where IZ policy is effectively implemented.

OBC Changes + Gentle Density

We would also like to extend our support for the changes to the Ontario Building Code that allow for 12-storey wood buildings, the new rules around 4 to 6-storey residential buildings that support mid-rise and those related to super tall buildings.

However, although we do see upcoming consultation on opportunities to increase the missing middle housing and gentle density, the proposed legislation could go further to quickly create more housing supply and mix in the yellow-belt, and by allowing more housing in more locations "as of right" without the need for municipal approval. Zoning must be revisited, as in most municipalities it is far too restrictive, preventing the addition of gentle density across the cities and towns of the GTA. Because of this we actually see population density decreasing in many of the established neighborhoods of the GTA rather than increasing – exactly the opposite outcome of what are trying to achieve.

Pauses on Official Plan Amendments, Appeals – MCR Discussions

Related to this discussion of making sure that we have the right housing mix and supply to accommodate growth, BILD supports the proposed legislative change to retroactively pause Official Plan Amendments for 120 days. This is rightly happening at a time when many Regions are undergoing municipal comprehensive reviews to ensure that their OPs conform to the new Growth Plan. In areas like Halton and Durham Regions, our members are reinforcing that providing a range of housing options to allow for consumer choice is vital, as is providing all of the necessary amenities and infrastructure to support new growth. These are very important exercises that will identify new land to accommodate growth, delineate expanded urban boundaries, provide updates to population and employment forecasts, intensification and density targets – and it is critical that all of this happens in line with the Growth Plan and supporting documents such as the land needs assessment methodology – all while understanding and accommodating market demand and housing choice.

It's vital that we get it right, and adding an appeal mechanism for these new plans, and a pause, represents a path forward based on realistic planning and the consumers choice for their housing needs. This will also result in a more balanced approach to future growth where the *local area municipalities* can ensure that appropriate land be allocated to accommodate their *own* visions for growth.

Pausing Official Plan reviews would also provide an opportunity to address the concerns and affordability challenges created by the City of Toronto's IZ framework.

Approved Lots Discussion

I would now like to turn our attention to the recent discussion around approved lots. We are very supportive of the Minister of Finance and the Minister of Municipal Affairs and Housing's commitment to engage in consultations and BILD is willing, eager and indeed asks to participate in these discussions. Zoned approved lots does not mean shovel ready, in fact there are many steps and approvals between zoning and building that can take years. Over the past few months, there has been growing assertions among some GTA mayors that there are 250,000 available zoned units or residential building lots. Its' been implied, and publicly stated, that developers and builders are "sitting" on these lots, or "holding back" on them instead of making them available to potential purchasers. The conversation around housing affordability deserves better.

To demonstrate our industry's commitment to ensuring that fact based information is the basis for the vital debate on housing supply, I have asked for a meeting of GTA municipalities through the Ontario Big City Mayors so that we can collectively quantify the real number of approved units and lots available for development, and where they sit in the development process because of delays related to approvals. BILD continues to wait for a reply to this invitation.

This issue deserves investigation and we support that effort and we look forward to participating in consultations with both our municipal partners and those organized by the province.

Condo Cancellations

Closely linked to approvals, the proposed legislation also introduces consumer focused measures including those to address condo cancellations. It is important to understand that the key reasons for condo cancellations are often related to supply chain issues, financing and also stem back to delays in the approvals process – from the time projects are launched until the time that construction starts. Most prudent builders wait until their approvals are further in process before launching projects to avoid having to adjust construction contracts. The new proposals introduced by Bill 109 and Housing Supply Act Plan initiatives related to accelerating approvals will help, and we look forward to continued dialogue with the province on this matter.

I will conclude now by thanking the Committee for providing us the opportunity to comment on this important Bill. I will be happy to take questions when the opportunity arises.

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Reports Enclosed:

Comparison of Government Charges on New Homes in Major Canadian and US Metro Areas, Altus Group Economic Consulting – September 2019

BILD Municipal Benchmarking Study
Altus Group Economic Consulting – September 2020

New Homeowner Money in the Government's Bank: How Unspent Municipal Reserves are Impacting Building Liveable, Affordable Communities in the GTA, Altus Group Economic Consulting - October 2021

Affordable Housing in the City of Toronto – A Responsibility we All Share: Summary of Study Findings of Inclusionary Zoning Reports & Studies - June 2021

Comparison of Government Charges on New Homes in Major Canadian and US Metro Areas

Independent Real Estate Intelligence

September 13, 2019

Altus Group

BILD

Comparison of Government Charges on New Homes in Major Canadian and US Metro Areas

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September 13, 2019

EXECUTIVE SUMMARY

Altus Group Economic Consulting was retained by the Building Industry and Land Development Association (BILD) to review the government charges and fees on new homes in several metropolitan areas across Canada, as well as selected metropolitan areas in the United States.

BILD is the voice of the land development, home building and professional renovation industry in the GTA, and represents more than 1,500-member companies. BILD advocates on behalf of the industry, as well as future homebuyers to keep government charges and fees fair and reasonable.

The study of government charges attempts to help readers understand the variety of charges imposed by the different levels of government, and the significant costs associated with the approval, building, development and ultimate occupancy of new homes across the GTA. It is important for readers to know the various fees and charges that governments collect from the development of new homes.

We have collected and compiled information on government charges for six GTA municipalities, as well as four other urban areas in Canada (Ottawa, Montreal, Vancouver and Calgary), as well as six metropolitan areas in the United States (New York, Chicago, Boston, Miami, Houston and San Francisco). This report is specific to residential home building and does not review government charges on mixed-use or non-residential development.

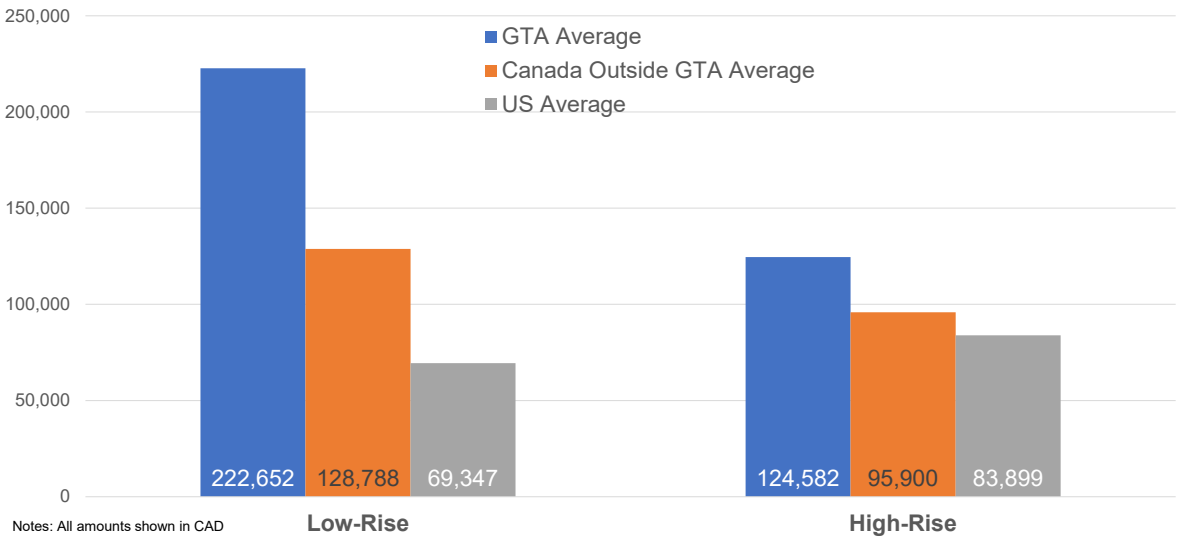
The government charges reviewed in this report are paid for by land owners, developers, home builders and home buyers. The fees paid for by land owners, developers and home builders can have direct implications on the prices of new homes in the GTA. Charges paid for by new home buyers increase the costs of home ownership and have implications on the amount of income available to pay for mortgage costs. The various government charges are modelled by utilizing two hypothetical development scenarios. The first, a 'low-rise' development consisting of single-detached homes, and the second, a 'high-rise' development consisting of a condominium apartment building.

Based on our review, we have found that the average government-imposed charges on new homes are significantly higher in the Greater Toronto Area than they are in both other Canadian urban areas, and in the US metro areas,

with the difference particularly high for low-rise housing, where government-imposed charges in the GTA are, on average, over 3-times higher on a per unit basis than they are on average in the six US metropolitan areas, and roughly 1.75-times higher than in the other Canadian urban areas.

Average Government-Imposed Charges on New Homes

Dollars per Unit



Notes: All amounts shown in CAD

Source: Altus Group Economic Consulting

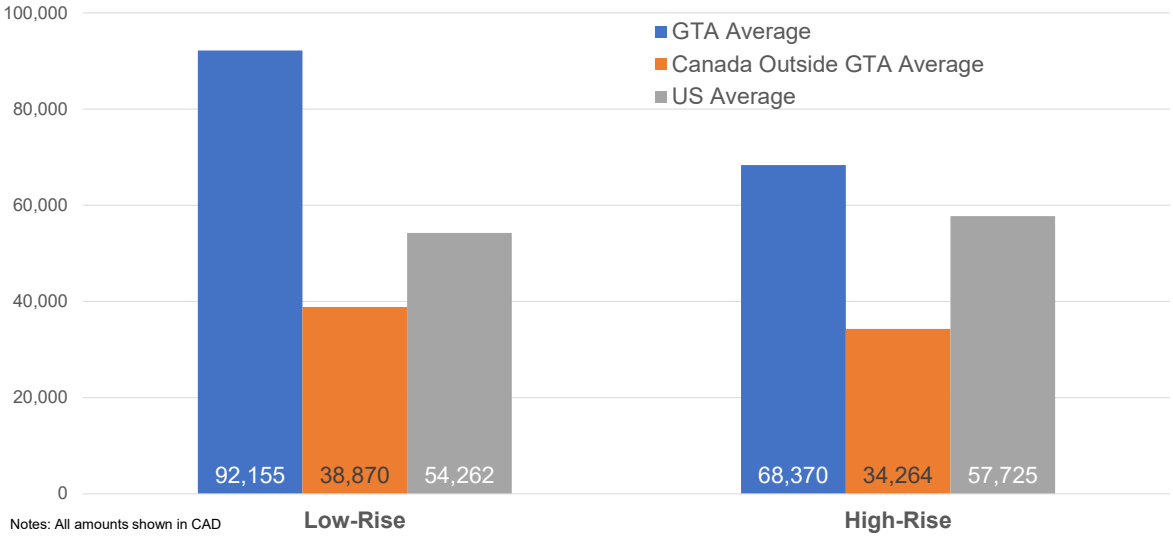
For high-rise developments the average per unit charges in the GTA are roughly 50% higher than those in the six US metropolitan areas, and roughly 30% higher than in the other Canadian urban areas.

When the government charges are expressed as a percentage of new housing prices, the charges applicable for new homes in the GTA (19.4% to 20.7%) greatly exceed the other Canadian urban areas (14.9% to 15.9%), and the US metro areas (6.5% to 8.2%).

A major driver why the US metro area charges are lower than both the GTA and other Canadian urban areas is that the US metropolitan areas surveyed do not impose sales taxes on new housing, whereas in the Canada, the sales tax included on new homes (before rebates can be applied) ranges from 5% to almost 15%.

Average Developer-Incurred Government-Imposed Charges on New Homes

Dollars per Unit



Notes: All amounts shown in CAD

Source: Altus Group Economic Consulting

The developer-incurred government charges, when expressed as a percentage of new housing prices, are again significantly higher in the GTA (8.6% to 10.8%) than in the other Canadian urban areas (4.6% to 4.7%) and US metro areas (4.4% to 6.2%).

The most significantly reason why developer-incurred government-imposed charges in the GTA are higher than elsewhere appears to be due to the high development charge costs imposed on new homes, which are approaching $100,000 per unit in some jurisdictions, and comprise 68% to 82% of developer-incurred charges on high-rise and low-rise development, respectively.

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1 INTRODUCTION

1.1 RETAINER

Altus Group Economic Consulting was retained by the Building Industry and Land Development Association (BILD) to review the government charges and fees on new homes in several metropolitan areas across Canada, as well as selected metropolitan areas in the United States.

1.2 BUILDING INDUSTRY AND LAND DEVELOPMENT ASSOCIATION (BILD)

The Building Industry and Land Development Association (BILD) is the voice of the home building, residential and non-residential land development and professional renovation industry in the GTA. The industry that BILD represents designs, sells and builds quality complete communities where people live, work, play and shop.

The more than 1,500-member companies of BILD come from all corners of the industry. In addition to home builders, land developers, and professional RenoMark™ renovators, BILD members include financial and professional service organizations, trade contractors, and manufacturers and suppliers of all types of home-oriented products.

BILD is a non-profit, industry funded organization that works to improve the communication between their industry and government, provide enhanced opportunities for their members, promote the welfare of the industry, and protect the interests of consumers.

BILD's mission is to enhance the health, vitality and reputation of the home building, residential and non-residential land development, and professional renovation industry. For more information visit bildgta.ca

1.3 STUDY PURPOSE

Our review of government charges attempts to help readers understand the variety of charges, and the significant costs associated with the approval, building, development and ultimate occupancy of new homes across the major metropolitan areas within Canada, and provide comparison with selected metropolitan areas within the United States.

The government charges analyzed and summarized in this report are incurred by land owners, developers, home builders and/or purchasers, and have implications for the affordability of new housing.

1.4 CAVEAT

The model summarized in this report utilizes assumptions regarding land values and housing prices. The values used are used only as the basis for modelling government charges for the specific hypothetical scenarios described in this report and are meant to reflect a typical or common land value or housing price in certain defined geographic areas, rather than an indicator of average values or prices across metropolitan areas.

The conclusions and estimates regarding applicable government charges should be used with caution as they relate to specific characteristics of the model scenarios and may not be applicable to other prospective developments in a given jurisdiction, as many government charges are dependent upon site location, development size, housing prices, land values and other elements that vary from one development to the next.

While every effort has been made to capture all of the applicable government charges in each jurisdiction, and to verify our understanding first-hand with relevant staff and/or officials, we are unable to confirm with absolute certainty that all applicable charges have been captured in all jurisdictions. We have also ignored several minor charges and levies that various government agencies may levy on certain developments and focused the report on the major charges of significant values.

Finally, all housing prices, land prices, and government charges for Canadian metropolitan areas are expressed in Canadian dollars (CAD) and are expressed in US dollars (USD) when dealing with the US metropolitan areas.

2 METHODOLOGY

This section of the report presents the key aspects of methodology used, including the municipalities selected for study and the development scenarios used to base our modelling upon.

2.1 DEVELOPMENT ASSUMPTIONS

2.1.1 Low-Rise Development Assumptions

The estimation of costs associated with the application, approval and build-out of a residential subdivision have been based on a hypothetical low-rise development scenario, the characteristics of which are as follows:

- 125 single-detached homes, each with 36-foot frontages;
- At average household size of 3.25 persons per single-detached home, the development is assumed to be built at a density of 60 persons per net hectare, which would mean the net land area required would equal 7.71 hectares.[2] At a net-to-gross ratio of 80%, the net land area would be 9.64 hectares (23.80 acres); and
- We have assumed that there would be approximately 690 metres of local roads within the development.

These development assumptions have been held constant across all of the jurisdictions reviewed to allow for an "apples-to-apples" comparison. It should be recognized that the low-rise development scenario used in this report is hypothetical only and may not be a realistic development option in some of the metropolitan areas reviewed.

We have assumed that each single-detached home within the low-rise scenario is 2,500 square feet in size, which is roughly consistent with the average size of a new single-detached home on a 36-foot lot in the Greater Toronto Area.

Our estimate of the value of engineering works is based on the 2019 Altus Group Construction Cost Guide, which provides an estimate of the costs for site servicing on local roads of $3,000 per metre of road frontage. Based on the assumed length of roads to be constructed in our low-rise development scenario, this means that the site servicing costs would amount to approximately $2.1 million.

2.1.2 High-Rise Development Assumptions

The characteristics of the high-rise development are as follows:

- 125 condominium apartments contained in a high-rise development, located at the intersection of two arterial roads;
- The development would be built on 0.52 gross hectares of land (and would be a square-shaped site at the intersection of two arterial roads, and therefore would have approximately 70 metres of frontage on each of its two arterial frontages);
- Parking would be provided through the construction of an underground garage.

Similar to the low-rise development scenario, the high-rise development assumptions have been held constant across all areas to allow for an "apples-to-apples" comparison. Also, the high-rise development used in this report is hypothetical only and may not necessarily be a realistic development option in some of the metropolitan areas reviewed.

The apartment units within the hypothetical building in the high-rise scenario is assumed to include 75 'large' apartments (2-bedrooms or more) and 50 'small' apartments (bachelor and 1-bedroom). The average apartment sizes are assumed to be 900 square feet per unit for large apartments and 650 square feet per unit for small apartments, which equates to an overall average unit size of 800 square feet per unit. The mix and size of apartments may not reflect the mix and size of apartments and apartment buildings being built in certain municipalities.

We have assumed that the gross floor area within the apartment units would comprise approximately 80% of the total area within the high-rise building. The remaining parts of the building would include the lobby, storage areas, amenity rooms, and other common areas.

The estimated costs for site servicing are based on 2019 Altus Group Construction Cost Guide, which estimates that servicing along arterial roads is approximately $4,300 per metre of frontage. As we have assumed that the high-rise development will have approximately 140 metres of arterial road frontage, this means that the site servicing costs would amount to approximately $620,000.

2.1.3 Land Value Assumptions

As some government charges are calculated using land value as an input, it is necessary to acknowledge differences in land values among the municipalities reviewed in this report. To determine the land value in each municipality, we have utilized data on land transactions in each municipality, where information was available.

2.1.4 Home Price Assumptions

The modelling of government charges is reliant in some cases on the prices of new homes, particularly for sales taxes, land transfer taxes, etc.. The average prices used in the analysis are based on average selling prices per square foot in the assumed development areas within each municipality, for housing units of similar size and scale as those within each of the low-rise and high-rise models.

2.2 SELECTED MUNICIPALITIES

2.2.1 Canadian Urban Areas

Figure 1 shows the Canadian municipalities for which we the government charges applicable to development of both low-rise and high-rise development will be estimated.

Figure 1

Metropolitan Area	Municipalities Subject to Low-Rise Scenario	Municipalities Subject to High-Rise Scenario
Greater Toronto Area	Town of Bradford West Gwillimbury City of Brampton City of Markham City of Pickering Town of Oakville City of Toronto	City of Brampton City of Markham Town of Oakville City of Toronto
City of Ottawa	City of Ottawa (outside Greenbelt, assumed to be in Kanata community)	City of Ottawa
Greater Montreal Area	Laval Longueuil	City of Montreal
City of Calgary	City of Calgary	City of Calgary (Established Area)
Metro Vancouver Area	City of Burnaby City of Surrey	City of Vancouver

The information on government charges applicable to new housing developments are based on publicly available information, or where information was not available, through correspondence with contacts at various government agencies. The rates for charges reviewed in this report

are those that were posted (or proposed) by each municipality or government agency as of the time of writing this report.

2.2.2 US Metropolitan Areas

We have based our study on six (6) metropolitan areas across the United States, with the low-rise and high-rise development scenarios assumed to be located in the areas within the metropolitan areas listed in Figure 2.

Figure 2

Metropolitan Area	Municipalities Subject to Low-Rise Scenario		Municipalities Subject to High-Rise Scenario	
	City	County	City	County
New York	Borough of Closter	Bergen County	Borough of Manhattan	New York County
Boston	Town of Plymouth	Plymouth County	City of Boston	Suffolk County
Miami	City of Homestead	Miami-Dade County	City of Miami	Miami-Dade County
Houston	City of Conroe	Montgomery County	City of Houston	Harris County
Chicago	City of Joliet	Will County	City of Chicago	Cook County
San Francisco	Dublin	Alameda County	San Francisco	San Francisco

3 TYPES OF GOVERNMENT CHARGES

In the appendices to this report, a detailed breakdown of the various types of charges applicable to new development is provided. However, at a high-level, the government charges applicable to new housing development in Canada and the United States can be categorized as follows:

- **Infrastructure Charges** – these fees are widely used across Canada, though they are often presented under different names. For example, in Ontario, they are called 'development charges' and there they recover municipal costs related to infrastructure (roads, water works, sanitary sewer works, etc.) and other community capital works (recreation centres, libraries, etc.). In the United States, these charges are most commonly known as "Impact Fees";
- **School Charges** – these fees typically generate money for local school boards to acquire school sites or construct school buildings.;
- **Planning Approval Fees** – this category includes fees related to changes or amendments to planning documents, applying for and obtaining building permits, fees for engineering construction and inspection, etc.;
- **Parkland Fees** – fees obtained by municipalities to purchase or acquire parkland, when not available to be specifically dedicated by a developing landowner;
- **Density Bonusing Fees** – these are contributions obtained by municipalities from developments that may be exceeding the erstwhile permitted density, and are typically directed to community infrastructure needs arising from the expected surplus in housing units/people being accommodated in a development relative to the original plans. These are used extensively in Ontario under section 37 of the Planning Act, and in Vancouver through the Community Amenity Contributions program;
- **Land Transfer Taxes** – fees levied by Provincial governments in Canada (and sometimes municipal governments, such as Toronto) on the value of property being transferred from a seller to a buyer. These are also used extensively in the United States, and are often levied by cities, towns and/or counties;

- **Sales Taxes** – the sales taxes on homes in Canada include the GST, which is a "Goods and Services" tax levied by the Federal government, and the Provincial Sales Tax (PST) levied by most Provincial governments on the purchase price of a new housing unit. Rebates are sometimes made available to homebuyers, depending on the purchase price of the home;
- **Inclusionary Zoning** – the requirement to include affordable housing in certain developments, depending on location, development size or type. Developers may also be given the option to include affordable housing in return for additional density or provide monetary contributions in lieu of inclusion within the development itself. These programs are used relatively widely across the United States, but are not yet used in the Canadian urban areas surveyed for this report;
- **Mortgage Insurance** – in Canada, lenders are required to obtain insurance on most mortgages below $1,000,000, based on the size of the down payment being made by the purchaser. The costs of the insurance premium are passed onto the borrower, and these costs are often embedded within ongoing mortgage payments. Homebuyers in the United States typically obtain private mortgage insurance (or "PMI"). The requirement for mortgage insurance lenders to include mortgage insurance on loans from Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation).

4 QUANTUM OF CHARGES APPLICABLE TO CANADIAN DEVELOPMENT SCENARIOS

4.1 GREATER TORONTO AREA & OTTAWA

4.1.1 Fees by Scenario

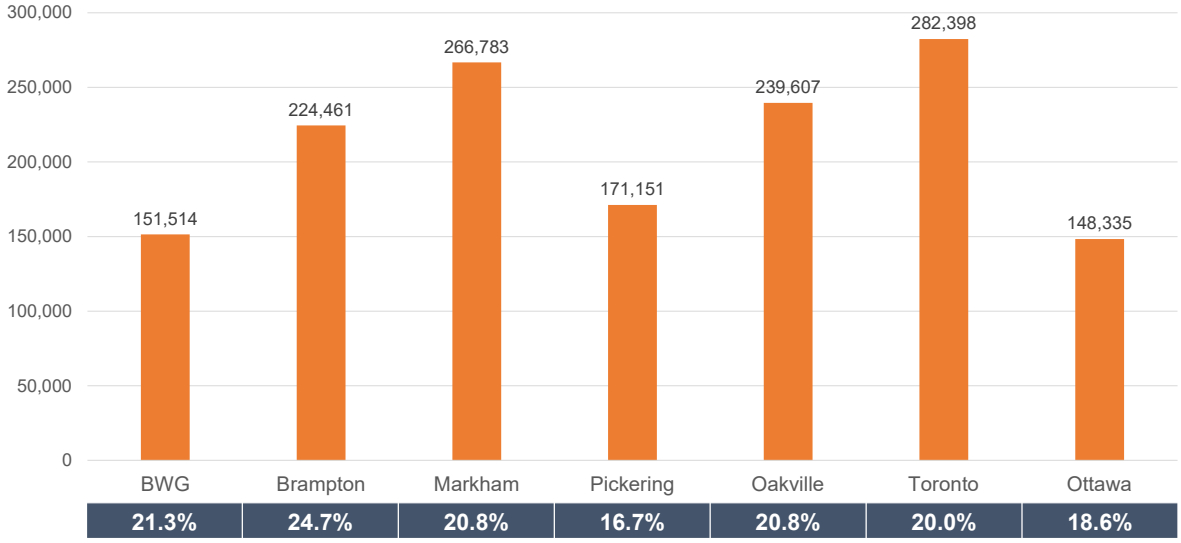
The charges on low-rise development in the selected GTA municipalities vary significantly on a per unit basis, but when expressed as percentage of housing prices, they range from 16.7% (Pickering) to 24.7% (Brampton).

The charges for a low-rise housing unit in Ottawa are much less than in most of the GTA municipalities, both on a per unit basis, and as expressed as percentage of new housing prices (18.6%).

Figure 3

Total Government Charges on New Homes, Selected Ontario Municipalities

Dollars per Single-Detached Unit



Source: Altus Group Economic Consulting based on information from various municipalities

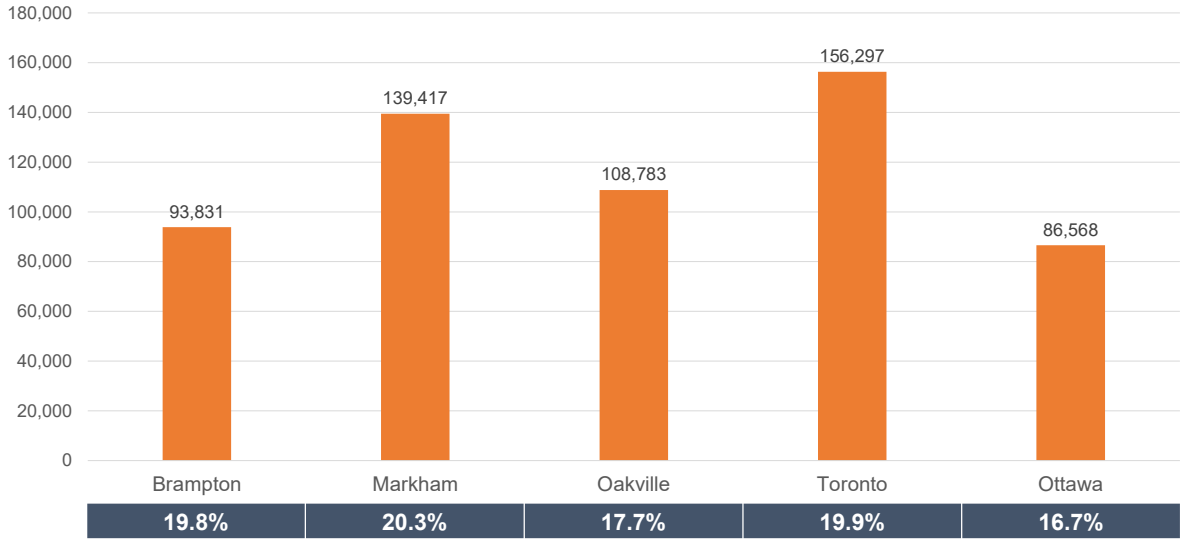
For high-rise development, the charges imposed by the selected GTA municipalities vary more significantly as a percentage of housing prices, ranging from 17.7% (Oakville) to 20.3% (Markham).

The charges for a new high-rise development in Ottawa amount to approximately $86,600 per unit, or 16.7% of the average price.

Figure 4

Total Government Charges on New Homes, Selected Ontario Municipalities

Dollars per Apartment Unit



Source: Altus Group Economic Consulting based on information from various municipalities

4.1.2 Fees by Type of Charge

When comparing the charges applicable by unit type in the selected Greater Toronto Area municipalities, the three largest government charges on new low-rise homes are HST, development charges and land transfer taxes. For high-rise units, the most significant charges in the Greater Toronto Area are development charges, HST and parkland dedication (or cash-in-lieu).

Figure 5

	Greater Toronto Area			
	Low-Rise		High-Rise	
Rank	Type of Charge	Dollars per Unit	Type of Charge	Dollars per Unit
1	HST	103,258	Development Charges	46,381
2	Development Charges	75,534	HST	30,995
3	Land Transfer Tax	19,701	Parkland Dedication	17,183
4	Parkland Dedication	10,504	CMHC Mortgage Insurance	15,882
5	CMHC Mortgage Insurance	7,538	Land Transfer Tax	9,335

In the City of Ottawa, HST on the new high-rise homes far exceeds the per unit development charges imposed by the City and local school boards. Given that prices in Ottawa are generally below $1,000,000, the costs associated with CMHC mortgage insurance are still a major factor.

Figure 6

Rank	City of Ottawa			
	Low-Rise		High-Rise	
	Type of Charge	Dollars per Unit	Type of Charge	Dollars per Unit
1	HST	70,509	HST	38,377
2	Development Charges	38,765	Development Charges	17,257
3	CMHC Mortgage Insurance	22,250	CMHC Mortgage Insurance	14,458
4	Land Transfer Tax	11,015	Land Transfer Tax	6,071
5	Parkland Dedication / CIL	2,447	Parkland Dedication / CIL	5,379

4.2 METRO VANCOUVER

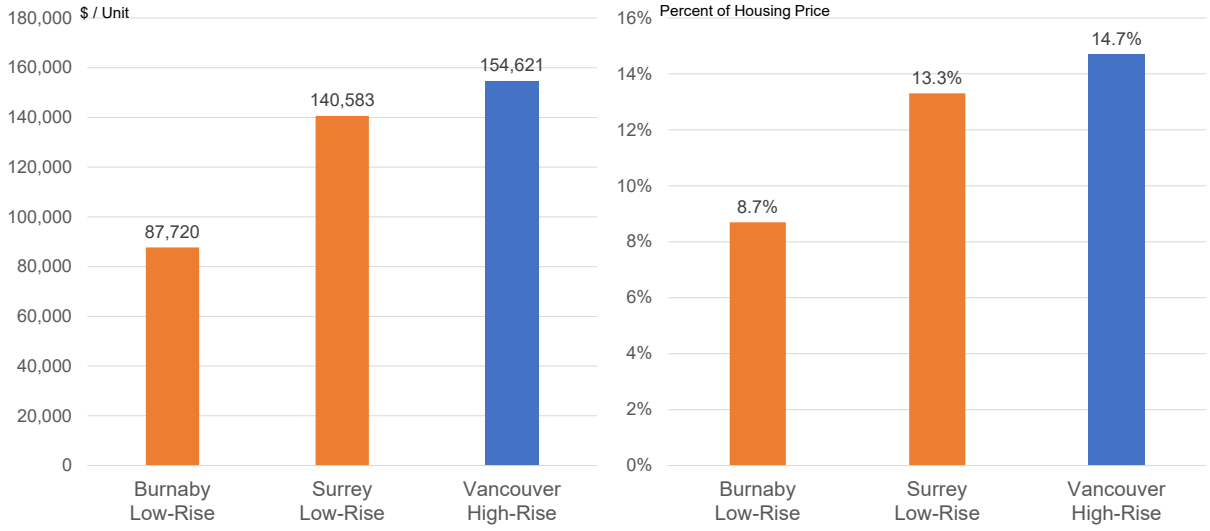
4.2.1 Fees by Scenario

Figure 7 shows the total government charges on a per unit basis applicable to the three development scenarios (low-rise in Burnaby and Surrey, and high-rise in Vancouver).

The fees for a high-rise development in Vancouver are greater than the low-rise scenarios in Burnaby and Surrey. This appears to be due to the significantly higher Development Cost Charges (DCCs) applicable in the City of Vancouver than in Burnaby or Surrey.

Figure 7

Total Government Charges on New Homes, Selected Metro Vancouver Municipalities



Source: Altus Group Economic Consulting based on information from various municipalities

For low-rise development, the charges in Burnaby are significantly lower than in Surrey, due to much lower infrastructure charges than in Surrey.

4.2.2 Fees by Type of Charge

The most significant charge for both low-rise and high-rise development in the Greater Vancouver Area is GST, while CMHC mortgage insurance second highest. Both of these charges are based on prices of homes. Third highest for both scenarios are the various development cost charges imposed by local governments.

Figure 8

	Metro Vancouver			
	Low-Rise		High-Rise	
Rank	Type of Charge	Dollars per Unit	Type of Charge	Dollars per Unit
1	GST	49,190	GST	20,256
2	Infrastructure Charges	25,639	CMHC Mortgage Insurance	13,522
3	Property Transfer Tax	17,676	Infrastructure Charges	12,781
4	Parkland	14,034	Parkland	6,375
5	Building Permit Fees	5,482	Building Permit Fees	2,387

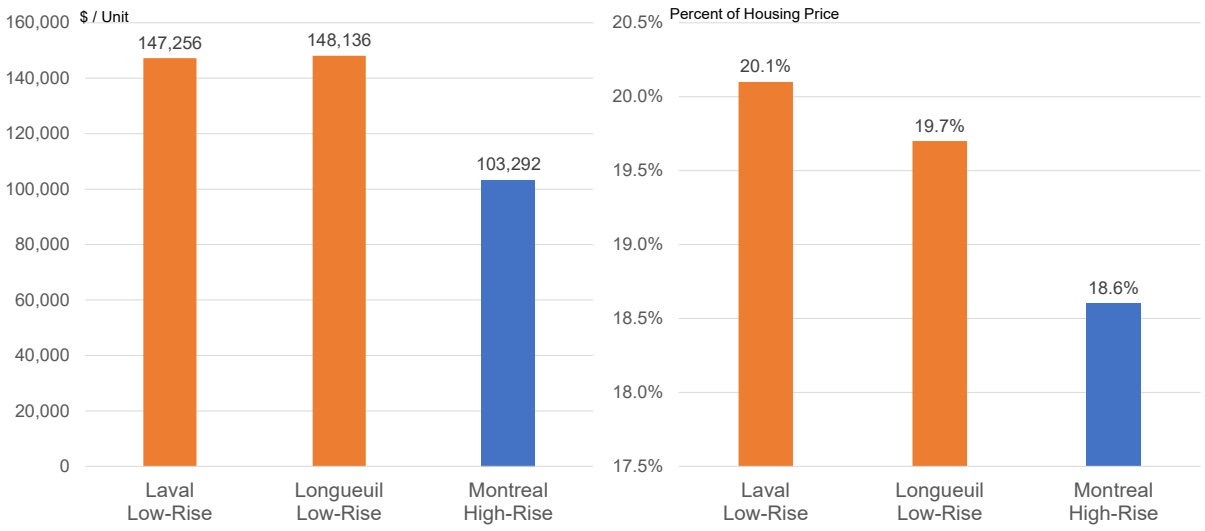
4.3 GREATER MONTREAL

4.3.1 Fees by Scenario

The charges imposed on low-rise homes in Laval and Longueuil amount to roughly 20% of the price of a new home, or roughly $148,000 in each location, while the charges imposed on a high-rise home in the City of Montreal amounts to just under 19% of average price, but are lower at $103,300, reflective of the lower price for high-rise homes in Montreal on average, compared to low-rise homes.

Figure 9

Total Government Charges on New Homes, Selected Greater Montreal Area Municipalities



Source: Altus Group Economic Consulting based on information from various municipalities

4.3.2 Fees by Type of Charge

The vast majority of government charges on new homes, both low-rise and high-rise are sales taxes on new homes, and the provincial QST in particular, ranging from 66% of all government charges for low-rise homes and over 70% for high-rise homes. The rebates for the QST are relatively ineffective in urbanized areas like the Greater Montreal Area, as they are not available for homes priced above $300,000.

Compared to other jurisdictions across Canada, the other infrastructure charges levied on new homes in the Montreal area are relatively minimal.

Figure 10

	Greater Montreal Area			
	Low-Rise		High-Rise	
Rank	Type of Charge	Dollars per Unit	Type of Charge	Dollars per Unit
1	GST/QST	96,816	GST/QST	38,582
2	CMHC Mortgage Insurance	20,739	CMHC Mortgage Insurance	9,388
3	Parkland	19,920	Land Transfer Tax	2,969
4	Land Transfer Tax	8,198	Parkland	1,421
5	Infrastructure Charges	1,462	Building Permit Fees	440

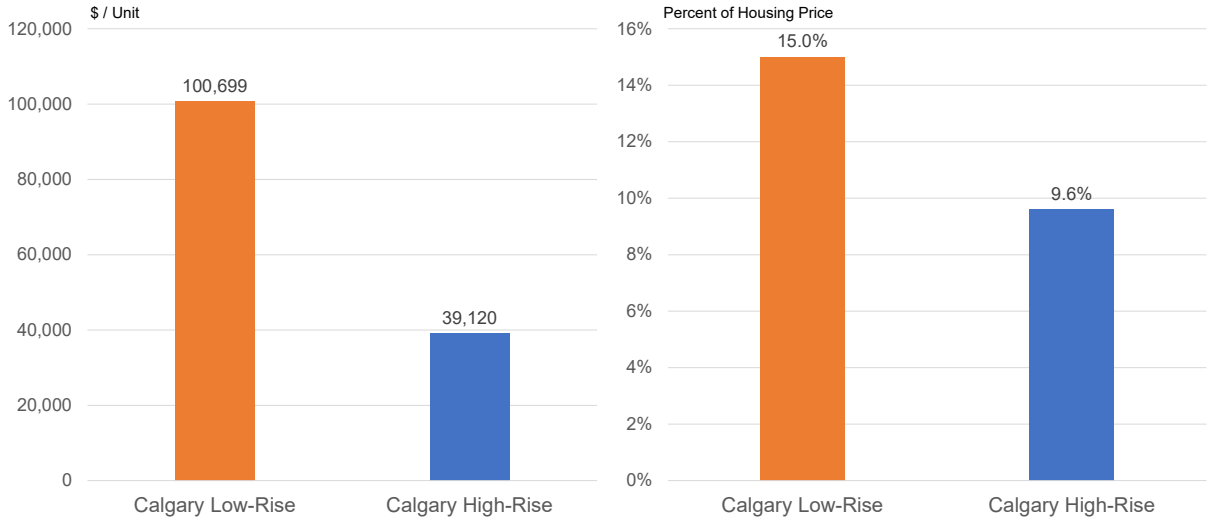
4.4 CITY OF CALGARY

4.4.1 Fees by Scenario

The fees for a low-rise home in Calgary amount to just over $100,600 per unit, or 15.0% of the housing price. For high-rise, the fees are substantially less, or approximately $39,100 per unit, and 9.6% of the housing price. The key differences are the large range in off-site levy costs between a greenfield scenario and within the City's established area, and the government charges that are directly related to housing price (GST).

Figure 11

Total Government Charges on New Homes, City of Calgary



Source: Altus Group Economic Consulting based on information from the City of Calgary

4.4.2 Fees by Type of Charge

The most significant government-imposed charge on low-rise development in the City of Calgary are off-site levies. For high-rise, the GST is the most significant charge, with off-site levies being only the third largest charge imposed on new high-rise developments.

Figure 12

	City of Calgary			
	Low-Rise		High-Rise	
Rank	Type of Charge	Dollars per Unit	Type of Charge	Dollars per Unit
1	Off-Site Levies	36,354	GST	14,669
2	GST	30,778	CMHC Mortgage Insurance	11,357
3	CMHC Mortgage Insurance	18,737	Off-Site Levies	8,005
4	Land Dedication	10,235	Building Permit Fees	4,780
5	Building Permit Fees	3,522	Planning Fees	303

5 CONCLUSIONS

5.1 COMPARISON OF CANADIAN METROPOLITAN AREAS

5.1.1 Low-Rise Scenario

The figure below ranks the jurisdictions where the low-rise development scenario was studied. When government charges are measured as a proportion of housing prices, the four highest jurisdictions studied are within the Greater Toronto Area (Toronto and Pickering are the exceptions), being as high as 24.7% in Brampton.

Figure 13

Government Charges as % of Housing Price, Ranked, Low-Rise Scenario

Rank	Municipality	Metropolitan Area	Government Charges as % of Housing Price
1	Brampton	Toronto	24.7%
2	Bradford West Gwillimbury	Toronto	21.3%
3	Markham	Toronto	20.8%
4	Oakville	Toronto	20.8%
5	Laval	Montreal	20.1%
6	Toronto	Toronto	20.0%
7	Longueuil	Montreal	19.7%
8	City of Ottawa	Ottawa	18.6%
9	Pickering	Toronto	16.7%
10	City of Calgary	Calgary	15.0%
11	Surrey	Vancouver	13.3%
12	Burnaby	Vancouver	8.7%

When the charges incurred by developers only are isolated (which includes development charges, planning and approvals fees, parkland dedication, etc.), the top four municipalities are in the Greater Toronto Area (Pickering and Toronto are again the two exceptions).

Figure 14

Developer Incurred Government Charges as % of Housing Price, Ranked, Low-Rise Scenario

Rank	Municipality	Metropolitan Area	Government Charges as % of Housing Price
1	Brampton	Toronto	11.3%
2	Oakville	Toronto	9.8%
3	Markham	Toronto	9.5%
4	Bradford West Gwillimbury	Toronto	8.6%
5	City of Calgary	Calgary	7.6%
6	Toronto	Toronto	6.9%
7	Surrey	Vancouver	6.8%
8	City of Ottawa	Ottawa	5.6%
9	Pickering	Toronto	5.6%
10	Laval	Montreal	3.2%
11	Longueuil	Montreal	2.7%
12	Burnaby	Vancouver	2.2%

When expressed on a per square foot basis, the developer incurred charges in four GTA municipalities exceed $38.98 per square foot and are as high as $48.44 in the City of Markham.

Figure 15

Developer Incurred Government Charges, per Square Foot, Ranked, Low-Rise Scenario

Rank	Municipality	Metropolitan Area	Government Charges per Square Foot
1	Markham	Toronto	48.44
2	Oakville	Toronto	45.19
3	Brampton	Toronto	41.13
4	Toronto	Toronto	38.98
5	Surrey	Vancouver	28.56
6	Bradford West Gwillimbury	Toronto	24.55
7	Pickering	Toronto	22.87
8	City of Calgary	Calgary	20.47
9	City of Ottawa	Ottawa	17.82
10	Laval	Montreal	9.29
11	Burnaby	Vancouver	8.89
12	Longueuil	Montreal	8.27

5.1.2 High-Rise Scenario

Of the jurisdictions where the high-rise scenario was tested, the Greater Toronto Area has four of the five highest government charges when expressed as a percentage of housing price. Generally, the high-rise government charges are lower than low-rise government charges when expressed as a percentage of housing price.

Figure 16

Government Charges as % of Housing Price, Ranked, High-Rise Scenario

Rank	Municipality	Metropolitan Area	Government Charges as % of Housing Price
1	Markham	Toronto	20.3%
2	Toronto	Toronto	19.9%
3	Brampton	Toronto	19.8%
4	City of Montreal	Montreal	18.6%
5	Oakville	Toronto	17.7%
6	City of Ottawa	Ottawa	16.7%
7	City of Vancouver	Vancouver	14.7%
8	City of Calgary	Calgary	9.6%

When the developer incurred government charges are isolated, the four GTA municipalities are the four highest among the jurisdictions studied, ranging from 9.3% to 12.5% of the price of a new high-rise apartment unit.

Figure 17

Developer Incurred Government Charges as % of Housing Price, Ranked, High-Rise Scenario

Rank	Municipality	Metropolitan Area	Government Charges as % of Housing Price
1	Brampton	Toronto	12.5%
2	Markham	Toronto	11.7%
3	Toronto	Toronto	9.8%
4	Oakville	Toronto	9.3%
5	City of Vancouver	Vancouver	8.2%
6	City of Ottawa	Ottawa	5.3%
7	City of Calgary	Calgary	3.2%
8	City of Montreal	Montreal	1.7%

When the developer incurred charges are expressed on a per square foot basis, the four GTA municipalities and the City of Vancouver are far and away the most expensive jurisdictions, ranging from $57.24 per square foot in the Town of Oakville to $86.62 in the City of Vancouver.

The developer incurred charges per square foot are significantly higher than the same for the low-rise scenarios. For the four GTA municipalities with both high-rise and low-rise scenarios in this study, the average developer incurred charges per square foot are $68 per sf for the high-rise scenario but are $43 per sf for the low-rise scenario.

Figure 18

Developer Incurred Government Charges, per Square Foot, Ranked, High-Rise Scenario

Rank	Municipality	Metropolitan Area	Government Charges per Square Foot
1	City of Vancouver	Vancouver	86.62
2	Markham	Toronto	80.02
3	Toronto	Toronto	76.81
4	Brampton	Toronto	59.41
5	Oakville	Toronto	57.24
6	City of Ottawa	Ottawa	27.66
7	City of Calgary	Calgary	13.09
8	City of Montreal	Montreal	9.69

5.2 COMPARISON OF US METROPOLITAN AREAS

Figure 19 compares the estimated government charges applicable to new housing across the six US metro areas.

For the low-rise scenario, just three of the six metro areas have government-imposed charges that exceed 10% of housing prices. On a per unit basis, only the San Francisco area has charges that exceed $100,000 per unit.

The average low-rise scenario generates $52,100 per unit ($USD) in government charges, while the high-rise scenario on average generates $63,000 per unit ($USD). These amounts equate to 8.2% and 6.5% of low-rise and high-rise housing prices, respectively.

Figure 19

Comparison of Government Charges on New Homes, US Metro Area, Low-Rise and High-Rise Scenarios

	Low-Rise			High-Rise		
	Per Unit	As % of Housing Price	Per Square Foot	Per Unit	As % of Housing Price	Per Square Foot
Metro Area	*$ / Unit (USD)*	*Percent*	*$ / SF (USD)*	*$ / Unit (USD)*	*Percent*	*$ / SF (USD)*
Boston	68,079	10.7%	27.23	58,048	6.2%	58.05
New York	43,975	5.3%	17.59	59,681	3.2%	59.68
Chicago	18,970	6.0%	7.59	26,602	4.4%	26.60
Miami	47,939	12.5%	19.18	89,690	13.3%	89.69
Houston	12,131	4.0%	4.85	14,123	2.7%	14.12
San Francisco	121,751	10.5%	48.70	130,345	9.0%	130.35
Average	52,141	8.2%	20.86	63,082	6.5%	63.08

Figure 20 shows the charges incurred by developers only, as some of the charges (mortgage insurance, transfer taxes in some areas) are incurred by

home buyers. However, the vast majority of government charges imposed are levied on developers and builders.

When the analysis is limited to developer-incurred charges, the average low-rise scenario imposes government charges of $40,800 per unit ($USD) on the developer, while the high-rise scenario results in $43,400 per unit ($USD) in charges upon a developer. These amounts equate to 6.2% and 4.4% of low-rise and high-rise housing prices, respectively.

Figure 20

Comparison of Developer/Builder Incurred Government Charges on New Homes, US Metro Area, Low-Rise and High-Rise Scenarios

	Low-Rise			High-Rise		
	Per Unit	As % of Housing Price	Per Square Foot	Per Unit	As % of Housing Price	Per Square Foot
Metro Area	*$ / Unit (USD)*	*Percent*	*$ / SF (USD)*	*$ / Unit (USD)*	*Percent*	*$ / SF (USD)*
Boston	56,723	8.9%	22.69	41,206	4.4%	41.21
New York	29,098	3.5%	11.64	26,658	1.4%	26.66
Chicago	13,295	4.2%	5.32	11,063	1.8%	11.06
Miami	39,300	10.2%	15.72	74,532	11.1%	74.53
Houston	5,296	1.7%	2.12	2,446	0.5%	2.45
San Francisco	101,078	8.8%	40.43	104,508	7.2%	104.51
Average	40,798	6.2%	16.32	43,402	4.4%	43.40

6 COMPARISON OF CANADA AND US METRO AREAS

The figure below compares the estimated government charges imposed on new housing in the six US metro areas to the amounts estimated for the same scenarios in various Canadian cities, both in the Greater Toronto Area (GTA) and elsewhere in Canada. The dollar values of the government charges in the US metropolitan areas have been converted to Canadian dollars for the purposes of the comparison with the government charges applicable in Canadian metro areas.[1]

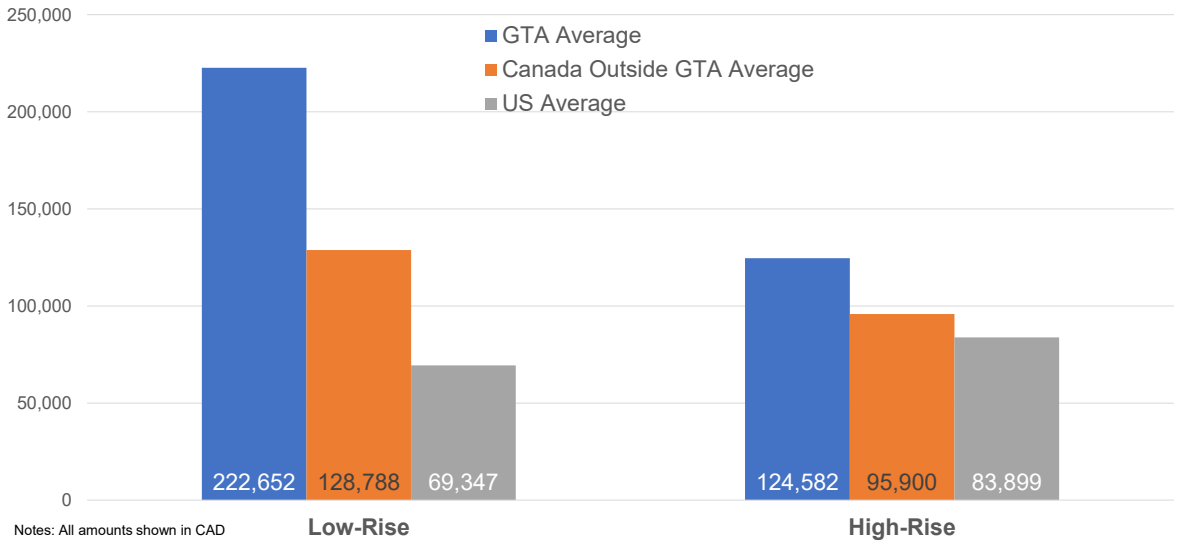
The average charges in Canadian cities outside the GTA are far greater than they are in almost all of the US metro areas, with the charges per low-rise unit in the GTA ($222,700 or $89 per sf) being just over 3-times higher than the US average ($69,400 when converted to $CAD or $28 per sf).

The average charges for high-rise units in the GTA are also higher than the average charges for the six US metro areas, at roughly $124,600 per unit, compared to $83,900 ($CAD) in the US metro areas. The average GTA charges amount to 19.4% of a typical housing price, compared to 6.5% in the US metro areas.

Figure 21

Average Government-Imposed Charges on New Homes

Dollars per Unit



Notes: All amounts shown in CAD

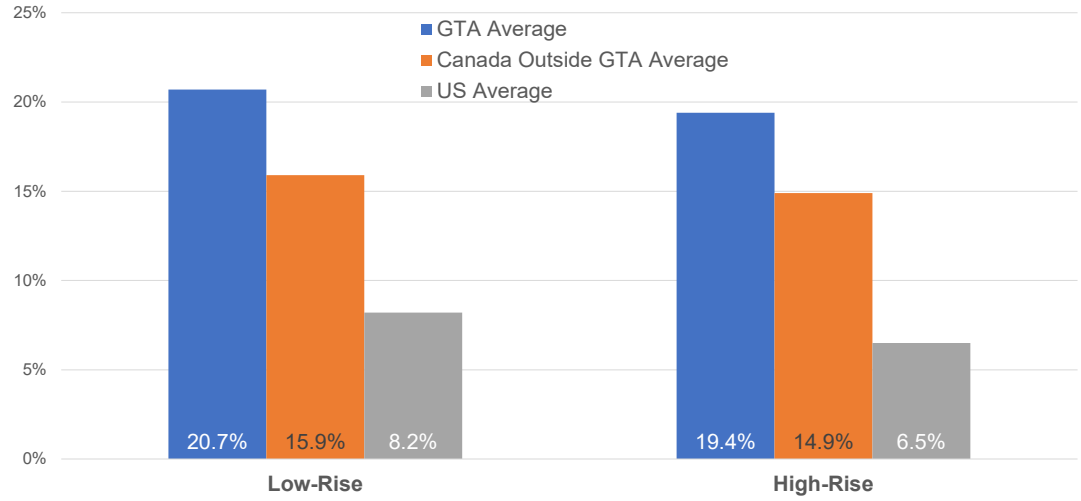
Source: Altus Group Economic Consulting

[1] A conversion rate of 1.33 CAD per USD has been used

The charges applicable to development in Canadian municipalities (both inside and outside the GTA) are generally higher due to significant costs included in housing prices through the application of sales taxes (GST, QST, HST, and/or PST, depending on the Province), which can add 5% to almost 15% onto housing prices. The cost of mortgage insurance is also generally higher in Canada than through the private mortgage insurance providers in the United States (at least for the down payment assumptions used in this study).

Figure 22 **Average Government-Imposed Charges on New Homes**

As % of Housing Price



Source: Altus Group Economic Consulting

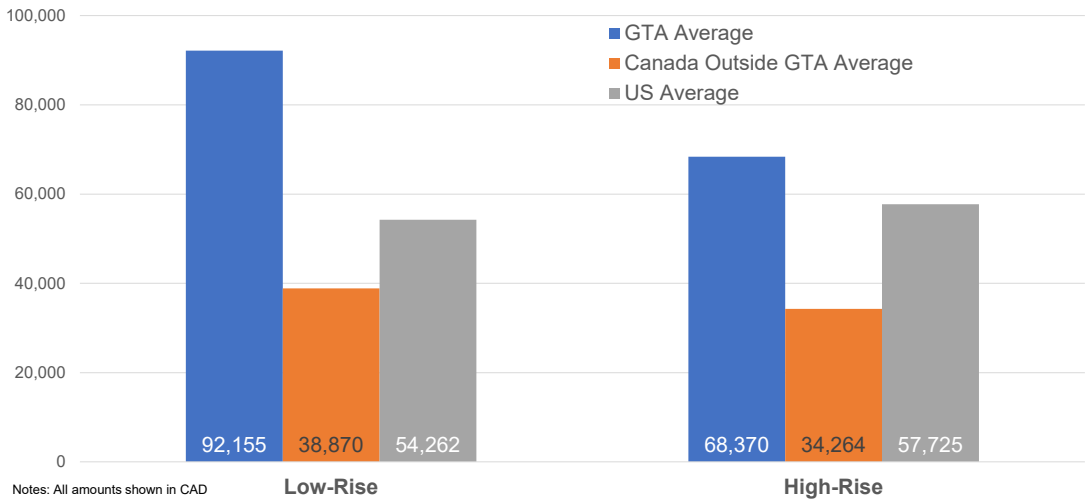
Development in the Canadian municipalities are also subject to several significant developer-incurred charges that are driving the higher costs of developing new homes in Canada, and the GTA in particular.

However, the developer-incurred charges on new housing (both low-rise and high-rise) in the GTA remain significantly higher than the US metro areas. For low-rise, these developer-incurred charges amount to 70% higher in the GTA on a per unit and per square foot basis for low-rise than in the US metro areas. For high-rise, the developer-incurred charges are roughly 20% higher in the GTA on a per unit and a per square foot basis, and more than 2-times higher when expressed as a percentage of housing prices.

Figure 23

Average Developer-Incurred Government-Imposed Charges on New Homes

Dollars per Unit



Notes: All amounts shown in CAD

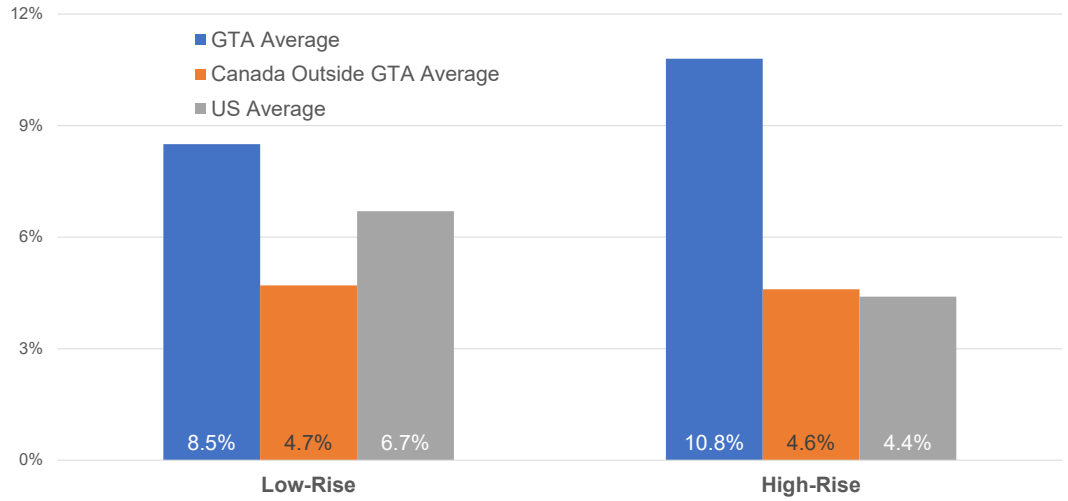
Source: Altus Group Economic Consulting

The most significant driver in the difference between developer-incurred costs in the GTA versus elsewhere in Canada and the six US metro areas appears to be the high costs associated with development charges in the GTA, which average to $75,500 per unit for the low-rise scenarios (or 82% of developer-incurred charges), and $46,400 per unit for the high-rise scenarios (or 68% of average developer-incurred charges).

Figure 24

Average Developer-Incurred Government-Imposed Charges on New Homes

As % of Housing Price



Source: Altus Group Economic Consulting

Appendix A
Detailed Overview of
Government Charges in Canada

1 GREATER TORONTO AREA & CITY OF OTTAWA

1.1 DEVELOPMENT CHARGES

The Ontario *Development Charges Act* grants authority to municipalities to enact a development charges by-law to impose a charge against land to be developed where the development will increase the need for municipal services, thus offsetting capital costs.

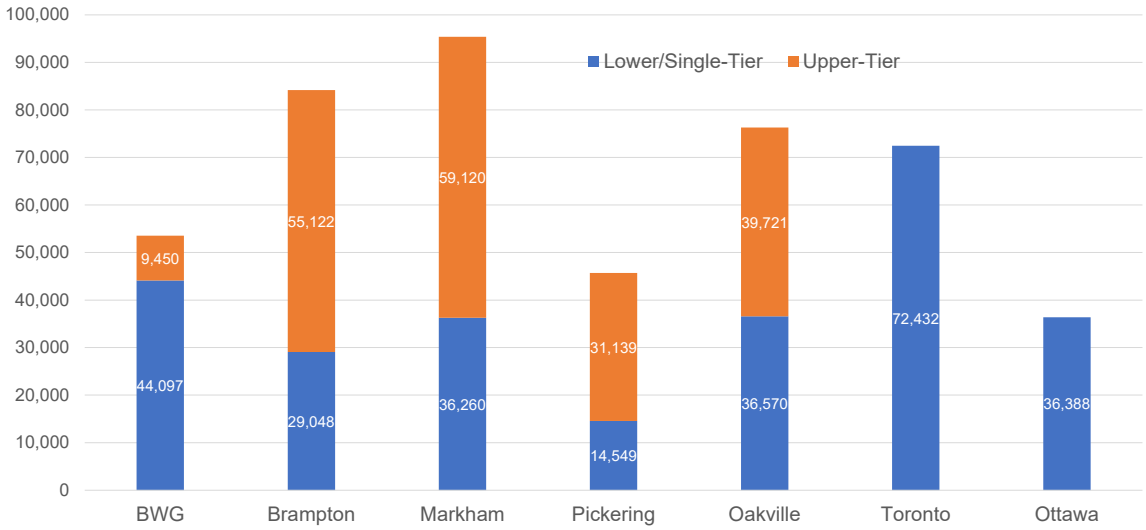
Municipal development charges collect funds for services deemed as being eligible in the *Development Charges Act*, such as Parks & Recreation, Libraries, Fire Services, Police Services, Water, Sewer, Roads, Transit, etc. Where there is both an upper-tier and lower-tier municipality, the services included in each respective municipality's DC by-law are based on which tier is the provider of each service.

Each of the lower-tier/single-tier municipalities reviewed in this report imposes development charges for a variety of services (as do the upper-tier governments where present). The DC rates seen in the various Ontario municipalities reviewed in this report are shown in Figure 25 below.[2]

Figure 25

Municipal Development Charges, Selected Ontario Municipalities

Dollars per Single-Detached Unit



Source: Altus Group Economic Consulting based on Municipal DC By-laws

[2] The development charge rates used are based on the current DC rates as of writing in this report, or any phased-in rate increases scheduled for the remainder of 2019.

As required under the *Development Charges Act*, these development charges are to be reviewed at least every five years, and in the interim periods are indexed either annually or semi-annually, depending on the municipality.

Several municipalities among those reviewed impose area-specific DCs depending on the location of the development site, including:

- Town of Oakville / Halton Region – Halton Region imposes a higher development charge for homes built in the greenfield area than those built within the built boundary. For this analysis we have assumed that the New Development scenarios fall within the Greenfield DC area, and that the Redevelopment scenarios are located within the built boundary area;
- City of Markham – The City of Markham imposes additional development charges for homes built in selected areas within the city. For this analysis we have assumed that the development is located outside the areas subject to area-specific development charges;

1.1.1 Bill 108 – More Homes, More Choice Act

In June 2019, the Province of Ontario passed Bill 108, which drastically alters how development charges are imposed in Ontario municipalities. The key changes include the removal of several 'soft services' as DC eligible services, such as recreation, library, parkland development, and child care.

Instead, these services will be recovered for from what will be known as a "Community Benefits Charge" under section 37 of the Planning Act. Bill 108 also removes the existing section 37 of the Planning Act which allows for density/height bonusing in return for community amenities, as well as removes the alternative parkland dedication rates and cash-in-lieu of parkland.

The Community Benefits Charge ("CBC") system will merge these three 'charges' into one charge, and the CBC will be based on the land value of the subject development at the time of building permit, with the CBC payable based on a prescribed percentage of land value. At this time, however, the Ontario government has not released regulations with the prescribed percentages, so it is unknown whether the CBC will generate more or less revenue for municipalities than the combination of the former soft service DCs, parkland cash-in-lieu and section 37 contributions.

The Province of Ontario has released general principles about the direction of the forthcoming regulation and set out two goals for the Community Benefits Charge, one of which is to "ensure that municipal revenues historically collected for 'soft services', parkland dedication including the alternative rate, and density bonusing are maintained".

Bill 108 also proposes several changes to what remains under the umbrella of the *Development Charges Act* as it pertains to the timing of calculation of DCs payable and the period in which DCs are paid. For the development of rental housing, institutional, industrial, commercial and non-profit housing, DCs are set either at the time of site plan application or zoning by-law amendment application, rather than at the time of building permit issuance. For these same land uses, DCs are now payable in six equal annual installments, with the first payment due at the issuance of an occupancy permit, or the date the building is first occupied.

The calculation and timing of payment of DCs for condominium and freehold residential homes remains unchanged in Bill 108.

1.2 EDUCATION DEVELOPMENT CHARGES

Education development charges (EDC's) are collected by local municipalities on behalf of the local school boards. EDC's are used by school boards to fund the acquisition of school sites and related costs (site preparation, etc.) to accommodate growth related pupils. EDC's are typically charged by both public and separate school boards and are usually levied on both residential and non-residential growth.

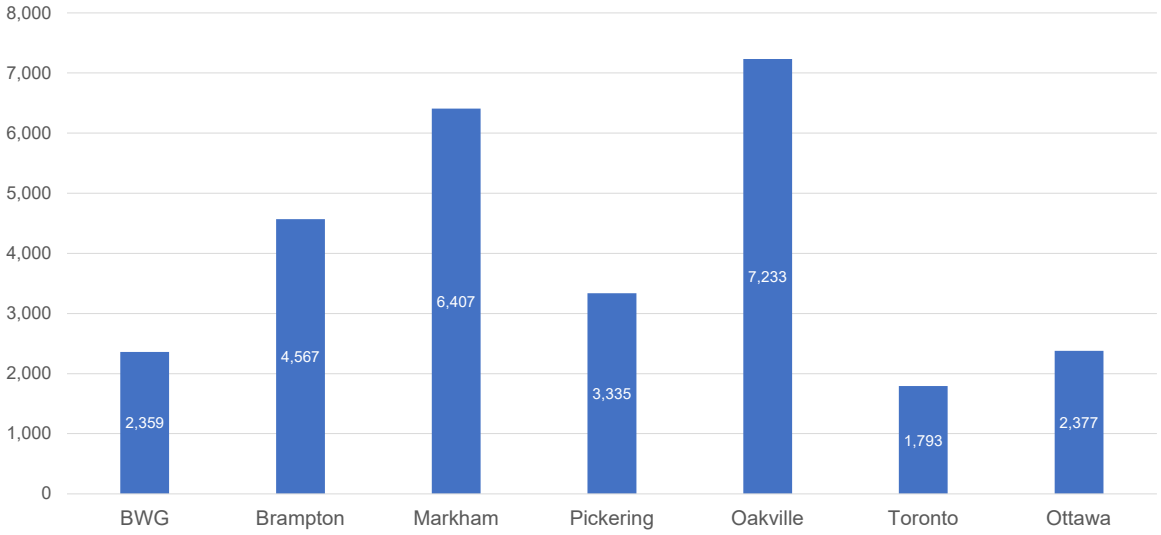
The EDC's charged by the school boards in the Ontario jurisdictions reviewed in this report are shown in Figure 26 below. They range from $1,793 in Toronto (they are only levied by the Toronto Catholic District School Board), to $7,233 in Oakville (both Public and Catholic boards levy EDCs in Halton).

Whereas the GTA municipalities are subject to one or two EDCs levied by Public and/or Catholic school boards, development in the City of Ottawa is subject to four (4) separate EDCs, as each of the two English-language school boards and two French-language school boards qualify to charge an EDC, and have in-force EDC by-laws.

Figure 26

Education Development Charges, Selected Ontario Municipalities

Dollars per Unit



Source: Altus Group Economic Consulting based on various EDC by-laws

EDCs are imposed solely on a per unit basis, meaning that single-detached units are charged the same rate as townhouse and apartment units. The Ontario Education Act and associated regulations enable school boards to impose these charges on a differentiated basis (i.e., higher rates for single-detached units, lower for apartment units), but to-date, this approach has not been utilized.

1.3 PARKLAND DEDICATION / CASH-IN-LIEU (CIL)

Prior to the passage of Bill 108 by the Ontario government, municipalities often acquired parkland and other forms of open space through parkland dedication requirements imposed on new developments. Alternatively, a developer was to provide "cash-in-lieu" ("CIL") of parkland dedication to a municipality.

Section 42 of the *Ontario Planning Act* says that as a condition of development or redevelopment of land, that land in an amount not exceeding 5% of the land to be conveyed to the municipality for park or other public recreational purposes (section 42(1)). Alternatively, for residential developments, the land conveyed to the municipality may also be provided at a rate of 1 hectare per 300 dwelling units (section 42 (3)).

Section 51.1 of the *Ontario Planning Act* says that in lieu of providing the land for parkland to the municipality, the developer may instead provide a payment to the municipality in the amount of the value of the land to be conveyed, at a rate not to exceed 1 hectare per 500 dwelling units. Section 51.1 (4) says that the value of the land is to be determined as of the day before approval of the draft plan of subdivision.

These rates were used in each Ontario municipality reviewed in this report, except in two instances:

- **City of Toronto**: the City has an alternative parkland dedication rate of 2% of land area, or 0.4 hectares per 300 units. In Toronto, CIL payments are also capped based on the size of the development site and the value of the site:
    - For smaller sites (less than 1 hectare), this cap is 10% of the value of the site;
    - For 1-5-hectare sites, the value of the payment cannot exceed 15% of the value of the site;
    - For larger sites (greater than 5 hectares) this cap is 20% of the value of the site.
- **City of Ottawa**: For developments with residential densities of 18 dwellings per net hectare or more, the City of Ottawa's parkland requirement is calculated as one (1) hectare for every 300 dwelling units, except for apartments where the parkland conveyance is not to exceed a maximum of 10% of the land area of the site being developed. Where dedication is not possible, the payment of cash-in-lieu is not to exceed an amount equivalent to 10% of the value of the site being developed.

The passage of Bill 108 (as discussed in an earlier section) has changed things considerably for Ontario municipalities as it relates to parkland dedication and the ability to recover cash-in-lieu of parkland dedication. With the removal of provisions in the Planning Act related to alternative parkland dedication rates and cash-in-lieu of parkland, the costs of parkland acquisition will be covered by the Community Benefits Charge, but it is unknown at this point what the end costs of the CBC by-law will be on developers and landowners.

1.4 SECTION 37

Section 37 of the *Ontario Planning Act* (as it was prior to the passage of Bill 108) allowed for increases in permitted height and/or density through the zoning by-law in return for community benefits, provided that Official Plan policies are in place.

1.4.1 City of Toronto

Section 5.1.1 of the *City of Toronto Official Plan* sets out the City's policies regarding the provision of height and/or density incentives through Section 37 of the *Planning Act*. The *City of Toronto Official Plan* sets out a number of community benefits that may be provided in return for increased height and/or density, including parkland/park improvements, streetscape improvements, public art, child care facilities, etc.

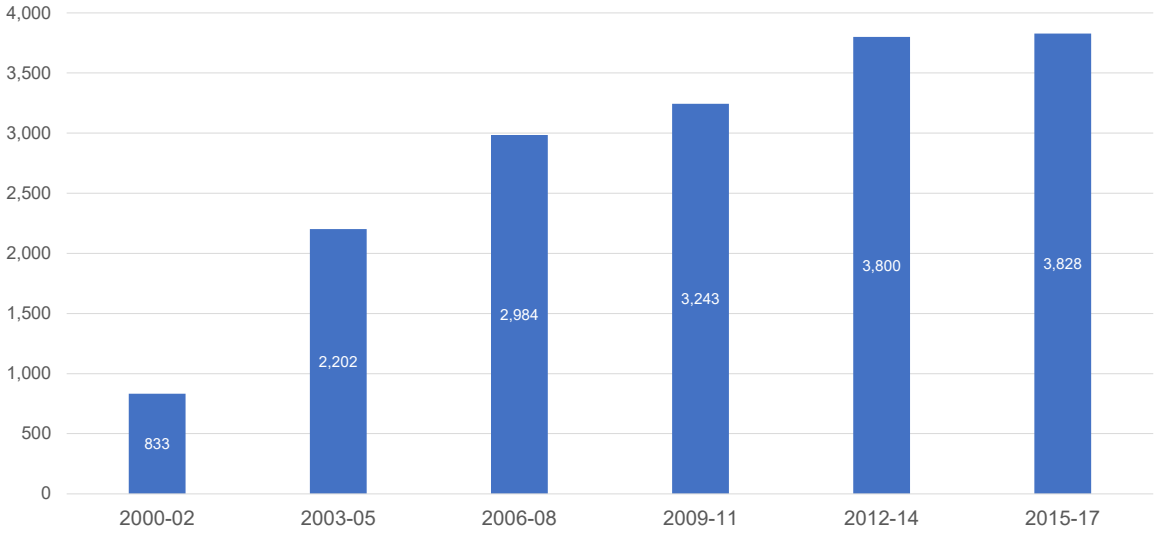
While Section 37 contributions are often provided by private developers when developing in Toronto, there is no publicly available formula or method for how these are calculated and/or arrived at. Based on our review of various zoning by-laws in the City, the cash contributions agreed to by developers and the City can vary significantly from one development to the next – in some cases less than $1,000 per unit, and in others in excess of $15,000 per unit, and up to over $22,000 per unit.

The average section 37 cash contribution has been steadily increasing since the year 2000, and over the 2015-2017 period, the average section 37 cash contribution amounted to approximately $3,800 per unit. The City also regularly secures non-cash contributions, such as rental housing replacement units, public art, playgrounds, daycare spaces, recreation facilities, etc.

Figure 27

Average Section 37 Cash Contributions, City of Toronto

Dollars per Unit



Source: Altus Group Economic Consulting based on various City of Toronto Zoning By-law Amendments, 2000-2017

To be conservative, we have assumed that the high-rise scenario in the City of Toronto would be subject to this average section 37 contribution over the 2015-2017 period of $3,800 per unit. However, based the range of cash contributions evident from section 37 agreements made for numerous developments across the City[3], this amount may be significantly understated.

While Section 37 is used in other GTA municipalities, it is not as widely used as it is in the City of Toronto. Therefore, in the other GTA municipalities subject to the high-rise scenario, we have assumed that Section 37 does not apply.

1.4.2 City of Ottawa

In the City of Ottawa, section 37 is used to negotiate contributions towards community benefits for developments that seek to increase a site's permitted density by 25% or more, and where the proposed building is at least 7,000 square metres in size. The City of Ottawa applies set "Value Uplift Rates" to additional density permitted via section 37, depending on the area of the City that the development is within. For Zone One, the Value Uplift Rate is $330 per square metre, while for Zone Two, the rate is $130 per square metre. For

[3] Our database includes over 260 section 37 agreements the City has approved over the 2000-2017 period.

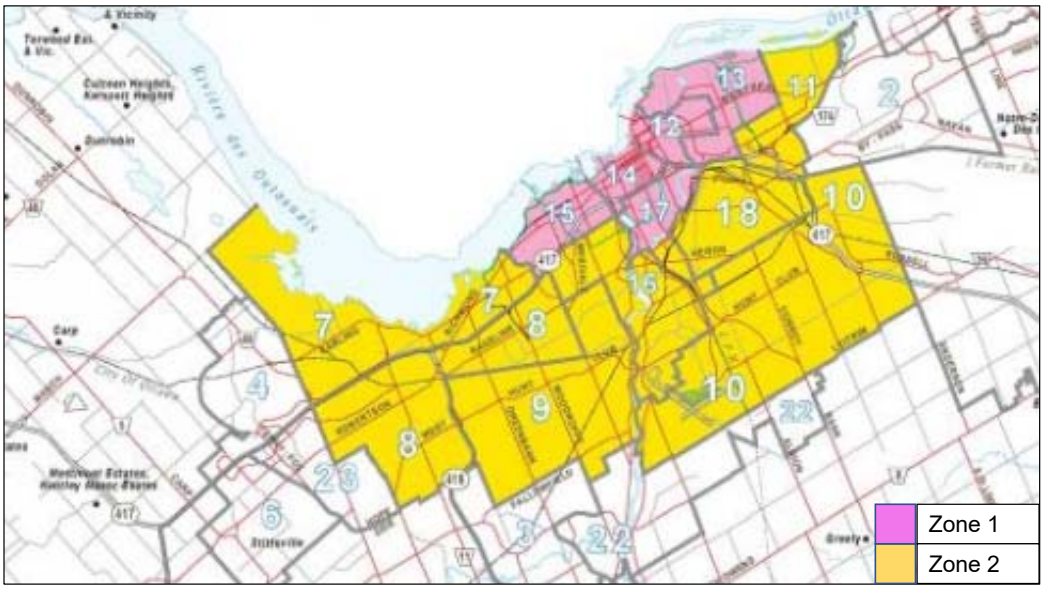
sites outside of the two geographic zones, an individual appraisal is to be undertaken by the City to determine the uplift value.[4]

The calculated Value Uplift can be 'drawn down' upon in several ways, including restoration of cultural heritage resources, provision of publicly accessible lands (internal pathways, plaza spaces), public realm improvements, or other publicly accessible benefits incorporated in the development (daycare, public art, etc.).

It is assumed that the as-of-right zoning on the site in Ottawa is 1.78 FSI, which means that the 25% threshold is met, and section 37 is applicable. Based on the Zone 2 Value Uplift Rate of $130 per square metre, the high-rise scenario would require a total section 37 payment of $304,000, or $2,435 per unit.

Figure 28

City of Ottawa, Section 37 Value Uplift Zones



Source: City of Ottawa

1.5 LAND TRANSFER TAXES

The provincial land transfer tax applies to the purchase of homes in Ontario. The progressive tax rates applied to each home are:

- 0.5% on amounts up to and including $55,000;

[4] City of Ottawa, Section 37 Guidelines, Approved by City Council (May 24, 2017) https://documents.ottawa.ca/sites/default/files/section_37_guideline_2017_en.pdf

- 1.0% on amounts exceeding $55,000 up to and including $250,000;
- 1.5% on amounts exceeding $250,000 up to and including $400,000; and
- 2.0% on amounts exceeding $400,000.

First-time home buyers are eligible for a rebate on all or part of the land transfer tax owing, up to a maximum rebate of $2,000.

The City of Toronto also imposes its own municipal land transfer tax (MLTT), which is imposed on home sales. The rates and stages of the tax are similar to the Ontario land transfer tax, however, first-time home buyers are eligible for a rebate up to $4,475 of the municipal land transfer tax owing on a property.

1.6 HARMONIZED SALES TAXES

New home sales are subject to the Harmonized Sales Tax of 13%, of which 5% is the federal portion (GST), and 8% is the provincial portion (PST).

The GST payable (or federal portion) is eligible for a rebate of 36% for houses priced at $350,000 or less, with the amount of rebate declining for houses priced between $350,000 and $450,000 (on a straight-line basis). There are no GST rebates available on homes priced above $450,000.

The PST payable (or provincial portion) is also subject to a rebate, which is calculated by applying a 75% factor to the PST payable, up to a maximum rebate of $24,000.

2 METRO VANCOUVER

2.1 DEVELOPMENT COST CHARGES

The Part 14, Division 19 of the *Local Government Act*[5] grants authority to municipalities to enact a development cost charges (DCC's) by-law to impose a charge against land to be developed where the development will increase the need for municipal services, thus offsetting capital costs.

Municipal development cost charges collect funds for services deemed as being eligible in the *Local Government Act*, such as sewage, water, drainage, highway facilities, parkland, etc.

The Cities of Vancouver and Surrey imposes development cost charges for a variety of services.[6] There are no City-wide DCC's in the City of Burnaby other than Parkland Acquisition Charges. Both the Parkland Acquisition Charges in Burnaby and the DCC's portion for parkland acquisition in the Cities of Vancouver and Surrey are considered separately in the Parkland Dedication section of this report.

In addition, Metro Vancouver imposes Development Cost Charges to Lower Mainland developments to recover the capital costs for new sanitary sewer works, namely the Greater Vancouver Sewerage and Drainage District (GVS & DD) DCC. The Lower Mainland is divided into four sewerage areas for the DCC purposes, with varying DCC rates applying to each area. Amongst the four areas, the Vancouver Sewerage Area covers almost all of the City of Vancouver and Fraser Sewerage Area covers the vast majority of the Cities of Burnaby and Surrey.

The rates in this report are based on the DCC's that will be effective on September 30, 2019.

The Metro Vancouver area is also now subject to a DCC imposed by TransLink to help fund the construction or expansion of regional transportation projects. As of January 2020, single-family dwellings will be charged a TransLink DCC of $2,100 per unit, while apartment units will be charged $1,200 per unit.

[5] *Local Government Act [RSBC 2015].* Same for the remainder of this report.

[6] In the City of Vancouver, the charges are known as Development Cost Levies.

Each of the three municipalities reviewed in this report impose area-specific development cost charges:

- **City of Vancouver** – The City of Vancouver imposes additional (in addition to the city-wide) development cost charges, namely Layered DCC's, for homes in residential development with a floor space ratio above 1.5 in certain areas (False Creek Flats and South East False Creek) within the city. Within this study, only the high-rise scenario has an FSR above 1.5. We have assumed that the high-rise development is outside of the two Layered DCC areas.
- **City of Burnaby** – The City of Burnaby imposes additional development cost charges for homes built within very defined areas within the City to fund specific capital projects, such as grade-separate pedestrian linkages, public open space, etc. For the purposes of this study, we have assumed that the development is located outside the areas subject to area-specific DCC's in Burnaby.
- **City of Surrey** – The City of Surrey imposes additional development cost charges for homes built in West Clayton and City Centre as well as higher DCC's in Anniedale-Tynehead area within the city. For this analysis we have assumed that the low-rise scenario is within the South Newton area and would only be subject to the City-wide DCCs. However, for the high-rise scenario we have assumed will be located within the City Centre area, and subject to additional area-specific DCCs.

In addition to the municipal DCC's, the City of Vancouver also charges water and sewer connection fees on a flat rate basis:

- Water Connection - $6,244 for single-detached dwelling and $12,156 for apartments.
- Sewer Connection - $11,513 for single-detached dwellings and $19,053 for apartments.

The City of Burnaby charges sanitary sewer and storm sewer connection fees on a per lot basis:

- Sanitary Sewer Connection - $91 per lot; and
- Storm Sewer Connection - $155 per lot.

2.2 SCHOOL SITE ACQUISITION CHARGES

School Site Acquisition Charges (SSAC's) are collected by local municipalities on behalf of the local school boards. SSAC's are used to fund a portion (35%) of the acquisition and servicing costs for new school sites to accommodate growth-related pupils over a 10-year period. SSAC's are levied on residential development (on a per unit basis) with varying rates based on density. The School Site Acquisition Charge Regulation prescribes the maximum SSAC's as following:

- $1,000 per unit for low-density development (up to 21 units per hectare);
- $900 per unit for medium/low-density development (21-50 uph);
- $800 per unit for medium-density development (51-125 uph);
- $700 per unit for medium/high-density development (126-200 uph);
- $600 per unit for high-density development (over 200 uph).

The Cities of Burnaby and Surrey collect SSAC's on behalf of school boards and the SSAC rates in both cities are currently at the prescribed maximum level. The City of Vancouver only imposes SSAC's in select areas of the City.

2.3 PARKLAND DEDICATION / PARKLAND ACQUISITION CHARGES

Municipalities often acquire parkland and other forms of open space through parkland dedication requirements imposed on new developments. Alternatively, a developer may provide "cash-in-lieu" of parkland dedication to a municipality.

Section 510 of the *Local Government Act* says that for land being subdivided, up to 5% of the land must be conveyed to the municipality, or a payment must be made to the municipality in the amount of the value of the land to be conveyed, for park purposes (section 510 (1)).

Parkland dedication requirements in the municipalities reviewed are as follows:

- **City of Vancouver** – The City of Vancouver has an alternative parkland dedication requirement – upon subdivision of a land parcel exceeding 20 acres, the City requires a parkland dedication rate of up to 10% or a payment of equivalent cash-in-lieu.

- **City of Burnaby** – The City of Burnaby imposes Parkland Acquisition Charges, which are discussed below, and has no additional public land use dedication requirements.
- **City of Surrey** – A 5% parkland dedication applies to subdivision of lands in the City of Surrey, or where dedication is not possible, a cash-in-lieu contribution equal to the value of 5% of development site is required. This is in additional to the Parkland Acquisition component of the City's DCC. For apartment development, there are no parkland dedication requirements (but DCC's, which are applicable to residential development of all housing types including apartments, include a parkland acquisition contribution).

The municipalities reviewed also impose Parkland Acquisition Charges separately (in Burnaby) or include parkland acquisition contribution in DCC's (in Vancouver and Surrey)[7]:

- **City of Vancouver** – The City of Vancouver imposes Development Charge Levies to fund development-related infrastructure and the expansion of municipal servicing, including parkland acquisition and development. According to the City of Vancouver *2017 City-Wide Development Cost Levy Update Background Study Report*[8], 18% of the DCL revenues are allocated to park related projects, which amounts to $3.27 per square foot for apartment development.
- **City of Burnaby** – The City of Burnaby imposes Parkland Acquisition Charges to all new residential development within the city at the following rates:
  - $6,521 per lot for single and two-family dwellings;
  - $3.62 per square foot of gross floor area (GFA) for multiple low-density residential townhouses;
  - $3.84 per square foot of GFA for multiple medium-density residential low-rise and ground-oriented apartments; and
  - $3.55 per square foot of GFA of multiple high-density residential high-rise apartments.

[7] Based on rates effective as of October 2017.

[8] Hemson Consulting Ltd., *City-Wide Development Cost Levy Update Background Study Report*, July 11, 2017

- **City of Surrey** – The City of Surrey's city-wide DCC's include parkland acquisition contribution ranging from $4,440 to $16,173 per lot for single-family residential development, and from $8.14 to $9.27 per square foot of dwelling units for multi-family residential development.[9] For the purposes of this report, we have assumed that the applicable rate for single-family is $5,019 per lot.

2.4 DENSITY BONUSING / COMMUNITY AMENITY CONTRIBUTIONS

Section 482 of the *Local Government Act* authorizes density bonus zoning, allowing municipalities to include in zoning bylaws the option of additional (bonus) density subject to specific conditions, which can include providing community amenities.

Amongst the municipalities reviewed, the cities of Vancouver and Burnaby implements density bonus zoning policies in selected areas within their municipal boundaries. The City of Vancouver sets out density bonus contribution rates (based on net additional floor area) for each of its density bonus zoning areas. The City of Burnaby's density bonus zoning policies focus on first the development of an on-site amenity and, where such opportunity is not suitable, the cash contribution-in-lieu, which is determined on a case-by-case basis.

As indicated in the 2014 provincial guidelines for Community Amenity Contributions (CAC's)[10], local governments sometimes use an additional approach and negotiate CAC's from those seeking a change in zoning. The guidelines noted that a site-specific rezoning including a density bonus on conditions of providing amenities is essentially a rezoning with CAC's.

The City of Vancouver imposes CAC's on private rezoning applications with different approaches in two types of CAC policy areas:

- City-Wide CAC Area: this applies to most of the city, and the CAC is determined through a negotiated approach; and
- Area-Specific CAC Areas: these are areas with their own area-specific CAC and /or public benefit policies, and the CAC is determined

[9] There are lower rates for seniors housing and assisted living housing.

[10] Ministry of Community, Sport and Cultural Development, *Community Amenity Contributions: Balancing Community Planning, Public Benefits and Housing Affordability*, March 2014

through a CAC target (which is a rate set out by the City and applied on net additional floor space) and/or negotiated approach.

The CAC's in the City of Vancouver are in addition to Development Cost Levies (DCL's), in areas where DCL's apply, and are used to fund public benefits including affordable housing, child care facilities, libraries, community centres, cultural facilities, parks and open spaces, etc. The CAC target rates vary significantly from one area to another – from a low of $3.36 per square foot of net additional GFA to a high of $68.18 per square foot, based on rates effective October 2017.

The City of Surrey imposes CAC's (namely Amenity Contributions in Surrey's municipal documents) in a number of selected Neighbourhood Concept Plan areas to fund community facilities, amenities and services including police protection, fire protection, library materials, park development, etc. The City sets out the CAC rates on a per unit basis for residential development for each of its current 31 CAC policy areas. The CAC rates vary significantly from one area to another – from a low of $147 per dwelling unit to a high of a $2,101 per dwelling unit (based on rates effective October 2017), with the differences largely attributing to differing needs in each area.

Given that the quantum of the City of Burnaby's Community Benefit Bonus is based on internal City calculations of price per square foot buildable space, it is difficult to estimate how much in fees would be paid, assuming on-site amenities could not be provided.

For the purposes of this study, we have made following assumptions regarding CAC's:

- **City of Vancouver** – for the high-rise scenario, we have assumed that the site falls under the RM-5 zoning, where a floor area ratio of 1.0 is allowed. Therefore, we have based the CACs on the excess density in our high-rise scenario, at the assumed a rate of roughly $40 per additional square foot of floor area. This rate is based on the average rates achieved by the City during the five years between 2012 and 2016, where the City of Vancouver's annualized average contributions ranged from $27.66 to $51.12 per square foot of

approved additional density. [11] It is assumed that CAC's would not apply to the low-rise development scenario.

- **City of Surrey** – we have assumed that the low-rise development will be within the South Newton CAC area (with a rate of $1,489 per unit), and that the high-rise development will be within the City Center CAC area (with a rate of $1,689 to $1,935 per unit, depending on the unit type).
- **City of Burnaby** – no community amenity contributions are assumed to be imposed by the City of Burnaby. According to the City's Community Benefit Bonus Policy, any increase in density over and above that permitted in the zoning by-law may be subject to the policy, but only in circumstances where the development is located in a "Town Centre area" (Brentwood Town Centre, Lougheed Town Centre, Edmonds Town Centre or Metrotown). The contribution can take the form of on-site amenities (open space, plaza, public facilities, child care facilities, etc.), or cash contributions equivalent to the increase in density. As a low-rise development is unlikely to be located in the Town Centres, it is assumed that no Community Benefits would be required of the low-rise scenario. For the high-rise scenario, it is likely that it would be located within the Town Centres. However, under the RM5 zoning, the maximum floor area ratio permitted (where underground parking is provided) allows for the hypothetical high-rise building being modelled.[12] Therefore, it is assumed that no Community Benefits would be required of the high-rise scenario in Burnaby.

2.5 PROPERTY TRANSFER TAX

The provincial Property Transfer Tax (PTT) applies to the purchase of homes in B.C. The progressive tax rates applied to each home are:

- 1.0% on amounts up to and including $200,000;
- 2.0% on amounts exceeding $200,000 up to and including $2,000,000;
- 3.0% on amounts exceeding $2,000,000.

[11] Based on City of Vancouver, *Annual Report on Community Amenity Contributions and Density Bonusing*, 2012, 2013, 2014, 2015, and 2016.

[12] Section 205.6(1) of the Burnaby Zoning By-law, allows for a floor area ratio of 1.80 plus up to an additional 0.40 for instances where underground parking is provided.

First-time home buyers are eligible for a rebate on 100% of the PTT owing for homes priced at or below $500,000, with the amount of rebate declining for homes priced between $500,000 and $525,000. There are no first-time home buyer rebates for homes priced at or above $525,000.

Buyers of newly-built homes are also eligible for a rebate on 100% of the PTT owing for homes priced at or below $750,000, with the amount of rebate declining for homes priced between $750,000 and $800,000. There are no newly-built home buyer rebates for homes priced at or above $800,000.

2.6 PROVINCIAL SALES TAX / GST

There is no Provincial Sales Tax (PST) on the purchase of real property in the Province of British Columbia. However the federal GST is still payable, with the same rebate eligibility calculations as detailed in the preceding subsection on the GST in Ontario.

3 GREATER MONTREAL

3.1 CONNECTION FEES

3.1.1 Montreal

The City of Montreal charges a water connection fee of $1,022 for the first 6.7 metres of watermains, plus $11 for each additional 0.3 metres, and a sewer connection fee of $722 per connection.

Since 2004, most infrastructure works related to new residential projects are done at the expense of developers/contractors. In these cases, the local improvement tax cannot be used to recover the costs over time from benefitting homeowners – rather, the cost of the works will likely be passed onto new homeowners through the sales prices of the housing units.

3.1.2 Laval

The City of Laval charges connection permit fees for new residential units:

- A base fee $450 per unit, plus $20 for each additional unit in a given building;
- Stormwater Drainage Fees, charged per 100m^2 of site area:
  - For sites less than 1 hectare (10,000 m^2): $75 per 100m^2;
  - For sites between 1 and 2 hectares (10,000-20,000m^2): $50 per 100m^2;
  - For sites greater than 2 hectares (20,000m^2): $25 per 100m^2.
- Water and Sanitary Sewer Connection Fees - $1,820 per connection (combined).

3.1.3 Longueuil

Longueuil imposes charges for watermains (a base fee of $700, plus $20 per linear metre) and sanitary sewers (a base fee of $100, plus $400 per connection) on new development.

3.2 SCHOOL CHARGES

In the three municipalities reviewed within Greater Montreal, there are no fees imposed on development for acquisition of school sites, or the construction of new school facilities.

3.3 PARKLAND CONVEYANCE

The Sections 117.1 and 117.2 of the *Quebec Chapter A-19.1 Act Respecting Land Use Planning and Development* says as a condition of development or redevelopment of land, a parcel of land is to be conveyed to the municipality for the purpose of a park or playground or preservation of a natural area, or an amount equivalent to the value of the parcel of land is to be paid to the municipality, or a combination of both the conveyance and payment.

Each of the Cities of Montreal, Laval, and Longueuil requires 10% of the area of the development or redevelopment site be transferred to the City, or an amount equivalent to 10% of the value of the site be paid, or a combination of both.[13]

The City of Laval also charges an additional assessment fee, at a decreasing rate on a per square metre basis, associated with establishing the land value. With a base of $100, the assessment fee starts at $0.2153 per square metre constructed and decreases gradually to $0.0269 for each additional square metre beyond the first 92,899 square metres. [14]

3.4 DENSITY BONUSING

The City of Montreal does not have any density bonusing or community amenity charges in effect.

3.5 LAND TRANSFER TAX

The land transfer tax in Quebec is commonly known as the "Welcome Tax" and the tax rates are different for the City of Montreal than they are elsewhere in the Province of Quebec.

The progressive tax rates applied to each home in the Province of Quebec outside the City of Montreal are:

[13] Based on the City of Montreal By-Law 17-055, City of Laval By-Law L-9500, and City of Longueuil By-Law CM-2003-163.

[14] Section 3.5(v) of the City of Laval Subdivision By-Law L-9500

- 0.5% on amounts up to and including $50,000;
- 1.0% on amounts exceeding $50,000 up to and including $250,000; and
- 1.5% on amounts exceeding $250,000.

The progressive tax rates applied to each home in the City of Montreal are as follows, with additional rate increases for prices above $500,000:

- 0.5% on amounts up to and including $50,000;
- 1.0% on amounts exceeding $50,000 up to and including $250,000;
- 1.5% on amounts exceeding $250,000 up to and including $500,000;
- 2.0% on amounts exceeding $500,000 up to and including $1,000,000; and
- 2.5% on amounts exceeding $1,000,000.

The City of Montreal provides financial assistance to buyers of newly-built homes who meet certain criteria though its Home Ownership Program. Two types of financial assistance are available:

- A lump-sum financial assistance is available to first-time home buyers purchasing newly-built homes under certain price thresholds. The amount of assistance available, ranging from $2,250 to $6,250, depends on buyers' household type (with or without children and number of buyers) and the purchase price of the home.
- A 100% rebate of land transfer tax ("welcome tax") for families with at least one child under 18 purchasing a newly-built three-bedroom home.

For the purposes of this analysis, we have assumed that none of the home buyers would be first-time buyers and thus no first-time home buyer financial assistance would be applicable. In addition, land transfer tax rebates through the City of Montreal's Home Ownership Program were also not considered in the analysis given that such rebates are only applicable to a specific group of home buyers purchasing a specific type of property.

3.6 QST / GST

New home sales in Quebec are subject to a 5% goods and services tax (GST – federal portion), and a 9.975% Quebec sales tax (QST – provincial portion).

The GST payable is calculated in the same manner as it is Ontario and British Columbia.

The QST payable is also subject to a rebate, which is 50% for houses priced at $200,000 or less, with the amount of rebate declining for houses priced between $200,000 and $300,000 (on a straight-line basis). There are no QST rebates available on homes priced at or above $300,000.

4 CITY OF CALGARY

4.1 OFF-SITE LEVIES

The Alberta *Municipal Government Act* grants the authority to municipalities to charge an "Off-Site Levy" in respect of land that is to be developed or subdivided. Off-Site Levies collect funds to help with the cost of off-site infrastructure, such as Water, Wastewater, Roads, Recreation, Fire and Police Services, and Libraries.

The City of Calgary charges different Off-Site Levies depending on the area of the City the land to be developed is located. For the purposes of this study we have assumed the low-rise scenario is located in "Greenfield Area – Nose Creek" and the high-rise scenario is located in the "Established Area". Development in the Centre City Plan Area is also subject to the "Centre City Levy" where a rate of $4,710 per metre of frontage is charged to recover for costs associated with utilities, community/recreation infrastructure, and alternative transportation infrastructure.

In addition to the municipal Off-Site Levies, the City of Calgary also charges water and sewer connection fees on a flat rate basis, at a rate of $26.23 per housing unit.

4.2 SCHOOL RESERVES / LAND DEDICATION

Sections 661 of the *Municipal Government Act* requires that the owner of land that is subject to a subdivision must provide land to the municipality for municipal/school reserves or the owner may provide "cash-in-lieu" of land. The municipal reserve is land that will be designated for parks, public recreation and the school reserve is land that will be used for future school sites.

The City of Calgary requires that 10% of the land area of the site being developed be transferred to the City, or an amount equivalent to 10% of the value of the land be paid, or a combination of both.

4.3 DENSITY BONUSING

Section 640 of the *Municipal Government Act* allows municipalities to attach conditions when issuing a development permit under their land use bylaw.

The land use bylaw may provide limits on the floor area, height and size of the building.

In the City of Calgary there are land use districts under the municipality's land use bylaw that allow for additional 'bonus floor area' in exchange for public amenities such as indoor community space, affordable housing, public art, cultural support space and etc. The amount of allowable bonus floor area is calculated by dividing the construction costs of the public amenities being provided by land value of the site, with an additional factor sometimes added into the calculation, depending on the type of amenity being provided. The land use bylaws provide a maximum bonus floor area ratio for sites that allow for additional floor area.

The amount of allowable bonus floor area can vary based on the land use district and type of public amenity to be provided. Therefore, we have not attempted to include these costs in our analysis. However, they are a significant government charge, and should be kept in mind when reading this report and assessing its results.

4.4 CITY OF CALGARY

The province of Alberta does not have a land transfer tax, however there is a fee for the transfer of the land title, which is relatively minimal ($50, plus $1 for every $5,000 of the land value).

4.5 PROVINCIAL SALES TAX / GST

There is no Provincial Sales Tax (PST) in the Province of Alberta. However the federal GST is still payable, with the same rebate eligibility calculations as detailed in the preceding subsection on the GST in Ontario.

5 OTHER GENERAL FEES APPLICABLE TO ALL CANADIAN METRO AREAS

There are various fees and charges associated with obtaining approval for a development, including for the permits required for the construction of the building(s), as well as the inspection of engineering fees infrastructure works required by a development.

Given that in many municipalities there is no clear delineation between the various planning approval, building approval, and engineering permits, for the purposes of displaying the results of our modelling, these costs will be grouped together as "municipal approvals and permit fees".

5.1 PLANNING REVIEW FEES

It is assumed for the purposes of this report that the low-rise development scenario would require a zoning by-law amendment and a plan of subdivision. It is assumed that the high-rise development scenario would require zoning by-law amendment, plan of condominium and site plan approval. We have assumed that both low-rise and high-rise developments would require official plan amendments (in Ontario), and amendments to their equivalent documents in Vancouver, Calgary and Montreal.

In addition, all residential development requires a Development Permit in the City of Vancouver, and high-density development requires a Preliminary Plan Approval in the City of Burnaby and a Development Permit in the City of Surrey. In the City of Calgary all residential development requires a Development Permit.

For the Montreal analysis, it is assumed that the low-rise development scenario would require a zoning amendment (modification de zonage) and subdivision permits (permis de lotissement), and that the high-rise development scenario would require zoning amendment, plan of condominium and site plan approval (known in Quebec as plans d'implantation et d'integration architecturale, or "PIIA"). In addition, it is

assumed that the low- and high-rise scenarios would require an amendment to the municipal master plans (plan d'urbanisme), where it is applicable.[15]

5.2 BUILDING PERMIT FEES

Each of the municipalities being reviewed charge building permit fees, for the construction of residential buildings, typically charged on a per square metre basis, or per $1,000 of value of work/construction.

5.3 ENGINEERING AND SERVICING FEES

Many municipalities charge a variety of engineering and service fees for the development, review, inspection, connection and/or assumption of a development's water, sanitary sewer and storm sewer services. The various engineering and servicing related fees may include:

- Servicing and Subdivision Agreement & Assumption Fees;
- Engineering Inspection Fees (typically charged as a percentage of the engineering works to be done);
- Site Alteration, Soil Removal, Fill and Lot Grading Fees; and
- Legal Fees.

Some municipalities (Burnaby and Surrey, BC) impose separate engineering fees on a per unit/lot basis or as a percentage of the costs of engineering works to be done for new home development.

The City of Vancouver includes various engineering inspection fees in relevant permit fees and does not charge additional engineering fees separately. Therefore, no separate engineering fees for the City of Vancouver are included in our modelling.

5.4 CMHC MORTGAGE INSURANCE

To obtain CMHC mortgage loan insurance, lenders are required to pay an insurance premium a cost that gets passed onto the borrower. The CMHC mortgage loan insurance is calculated as a percentage of the mortgage loan.

[15] This is not applicable to the City of Laval. The City of Laval, as both a regional county municipality and a city, only adopts a Schéma d'aménagement et de développement (SAD) and does not need to adopt a master plan (plan d'urbanisme). Amendment to the SAD is typically initiated by the City.

The higher the percentage of the total price that is borrowed for (up to $1,000,000, after which no mortgage insurance is available), the higher percentage that is required to be paid in insurance premiums.

Examples of CMHC mortgage insurance premiums and loan-to-value ratios are as follows:

- Loan-to-Value ratio of 75.01% to 80% - 2.40% premium
- Loan-to-Value ratio of 80.01% to 85% - 2.80% premium
- Loan-to-Value ratio of 85.01% to 90% - 3.10% premium
- Loan-to-Value ratio of 90.01% to 95% - 4.00% premium

For the purposes of this analysis, we have assumed that buyers will have on average an 90% loan-to-value ratio, and therefore will require a 3.1% mortgage loan insurance premium.

Appendix B
Detailed Overview of Government Charges in Selected US Metropolitan Areas

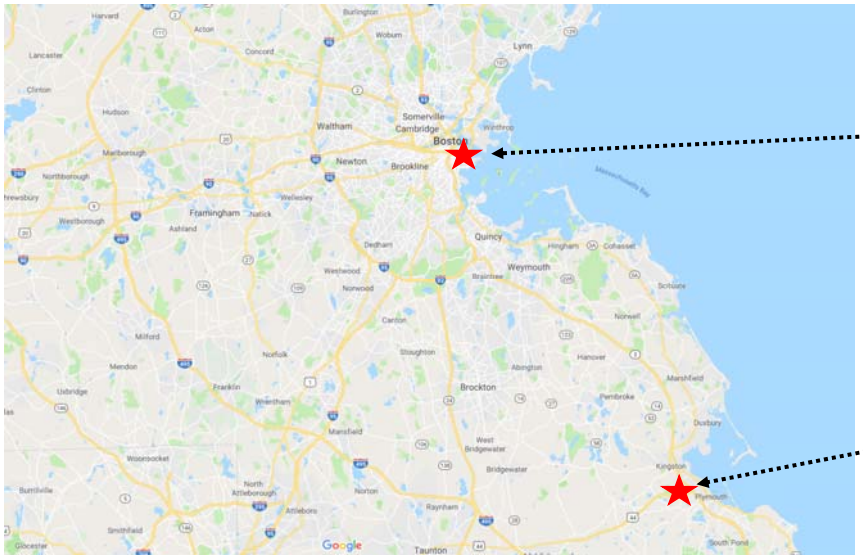
1 GREATER BOSTON

1.1 LOCATION OF SCENARIOS

The following figure shows where the low-rise and high-rise development scenarios are located for the purposes of quantifying the government charges applicable to typical developments in the Greater Boston area.

Figure 29

Location of Greater Boston Development Scenarios



High-Rise Scenario

State: Massachusetts
County: Suffolk
City: Boston
Area: South Boston

Price: $1,175 psf

Low-Rise Scenario

State: Massachusetts
County: Plymouth
City: Plymouth

Price: $247 psf

Note: Prices shown are based on active developments in area, and are meant to represent a 'typical' price for a new home similar to what is assumed in development scenarios. Prices are not meant to be reflection of average pricing in a given area or on a City-wide basis

Source: Google Maps

1.2 DESCRIPTION OF APPLICABLE CHARGES

1.2.1 Massachusetts State Charges

Sales taxes are not added onto or included in the sales prices for new homes in Massachusetts. However, the State imposes a Property Transfer Tax of $2.28 per $500 of purchase price - this tax is paid by the seller of property.

Unlike most other states across the country, the State of Massachusetts provides no legal authority to most municipalities and/or counties to impose impact fees on development.[16]

[16] However, the towns in Barnstable County are allowed to adopt an impact fee system under the Cape Cod Commission Act http://www.impactfees.com/resource/state-local/MA_model.pdf

1.2.2 County Charges

Plymouth County doesn't appear to charge fees on new housing development, as the services the county provides are limited to courthouse maintenance, parking enforcement, public safety, tourism and historical records. Plymouth County does not appear to have by-laws enabling them to set fees and charges on new housing development.

Similarly, Suffolk County, which covers the City of Boston, does not appear to levy any charges against new housing development.

1.2.3 Municipal Charges

1.2.3.1 Town of Plymouth (Low-Rise)

The Town of Plymouth charges fees for the application and approval of permits related to building, plumbing, gas, electrical, and planning and zoning review.

The Town also has an Inclusionary Housing policy in the Zoning By-law that requires that the developer provide a number of affordable housing units that is not less than 10% of the total market rate units that are constructed. Or, the developer may contribute a fee to the Plymouth Affordable Housing Trust Fund instead of constructing affordable housing units. The payment-in-lieu is based on the current pricing of affordable housing units and related land and construction costs.

1.2.3.2 City of Boston (High-Rise)

The City of Boston imposes fees for permits related to building, plumbing, and electrical. Development projects with at least 50,000 square feet of gross floor area must undergo a planning review process with the Boston Redevelopment Authority. As part of the review process the developer will agree to provide community benefits in exchange for planning approvals. There is no publicly available formula or method for how these benefits are calculated and/or arrived at. Therefore, we have not attempted to include these costs in our analysis.

The City of Boston has adopted an inclusionary housing policy for projects with 10 or more housing units. The policy requires that 15% of the market-rate units shall be made affordable to moderate-income (up to 80% of median income) and middle-income (between 80% and 120% of median income)

households. The policy also has a cash-in-lieu program where the payment is calculated by multiplying the total number of market rate units by 15% and the affordable housing cost factor of $200,000. It is assumed for the purposes of quantifying charges for the high-rise scenario in Boston that the developer would opt for a cash-in-lieu payment.

1.2.4 Other Agencies

1.2.4.1 Boston Water and Sewer Commission (High-Rise)

The Boston Water and Sewer Commission (BWSC) manages the drinking water and sewer services for the City of Boston. The BWSC requires a site plan review for developments that will connect to their services.

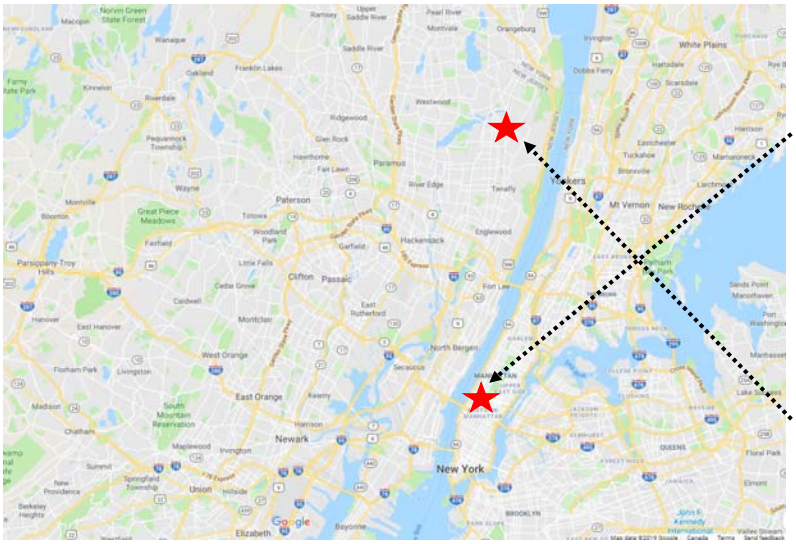
2 NEW YORK METROPOLITAN AREA

2.1 LOCATION OF SCENARIOS

The following figure shows where the low-rise and high-rise development scenarios are located for the purposes of quantifying the government charges applicable to typical developments in the New York Metropolitan Area.

Figure 30

Location of New York Metropolitan Area Development Scenarios



High-Rise Scenario

State: New York
County: New York
City: New York
Area: Manhattan

Price: $2,305 psf

Low-Rise Scenario

State: New Jersey
County: Bergen County
City: Closter

Price: $332 psf

Note: Prices shown are based on active developments in area, and are meant to represent a 'typical' price for a new home similar to what is assumed in development scenarios. Prices are not meant to be reflection of average pricing in a given area or on a City-wide basis

Source: Google Maps

2.2 DESCRIPTION OF APPLICABLE CHARGES

2.2.1 New York (High-Rise) / New Jersey (Low-Rise) State Charges

Sales taxes are not added onto or included in the sales prices for new homes in New Jersey and New York.

The State of New Jersey imposes a Realty Transfer Tax of $5.30 per $500 of purchase price - this tax is paid by the seller. The State also imposes a relatively minor surcharge as part of building permit process.

The State of New York imposes a Real Estate Transfer Tax of $2.00 per $500 of the purchase price – this tax is paid by the seller. The state also charges an additional tax of 1% of the sales price that applies to residences with a value of $1 million or more and a supplemental tax of 0.25% for properties with a value of $2 million or more.

While impact fees are allowed in the State of New Jersey, there is no enabling legislation allowing cities or counties to impose impact fees on new development in New York State.[17]

2.2.2 County Charges (Bergen County)

Bergen County imposes fees for planning approvals, including site plan review, subdivision review, as well as for connections to County storm drains.

2.2.3 Municipal Charges

2.2.3.1 Borough of Closter (Low-Rise)

The Borough of Closter imposes fees for application and approval of permits related to building, plumbing, mechanical, electrical, and plan review. The Borough requires an escrow deposit to cover the costs in reviewing the plans that are submitted to the municipality as part of the building/planning approval process. Funds remaining in the escrow account at the completion of the project are returned to the developer.

Closter also charges a development fee of 1.5% of the assessment value of the development, where the funds from will be used for affordable housing.

2.2.3.2 City of New York (High-Rise)

The City of New York charges fees for various building permit applications and planning approvals.

The City also runs an Inclusionary Housing Program that provides two optional floor area incentives in exchange for the creation or preservation of affordable housing, on or off-site. One program, the "R10" program provides a floor area bonus of 20% in applicable residential and commercial districts with R10 density permissions. The City also has certain Inclusionary Housing designated areas where a bonus of 33% can be obtained for providing 20% of gross floor area as affordable housing. It is assumed for the purposes of this report that the high-rise development scenario would not be on a parcel

[17] Manhattan Community Board 1, Developmental Impact Fees – Process/Analysis/Implementation, 2017-2018 https://www1.nyc.gov/assets/manhattancb1/downloads/pdf/studies-and-reports/Sarita_Impact%20Fee%20Report_2018.pdf

where inclusionary housing provision was mandatory, and that they would opt not to participate in the Inclusionary Housing Program.

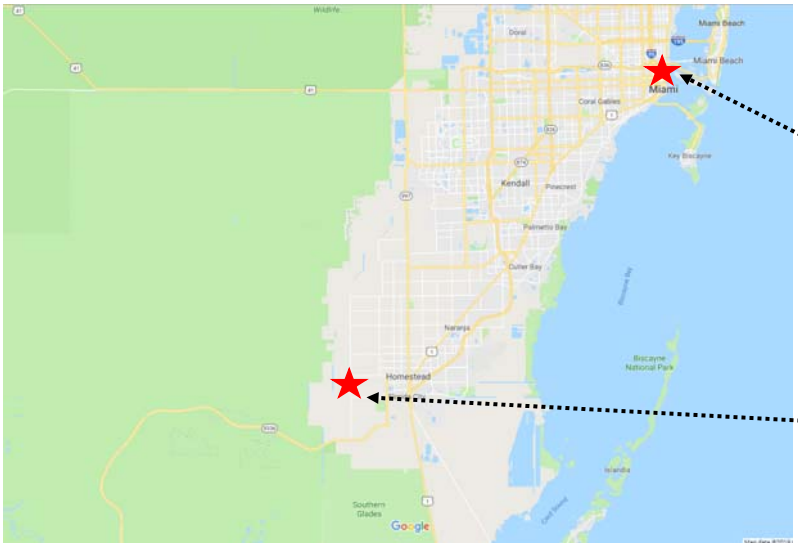
3 MIAMI METROPOLITAN AREA

3.1 LOCATION OF SCENARIOS

The following figure shows where the low-rise and high-rise development scenarios are located for the purposes of quantifying the government charges applicable to typical developments in the Miami Metropolitan Area.

Figure 31

Location of Miami Metropolitan Area Development Scenarios



High-Rise Scenario

State: Florida
County: Miami-Dade
City: Miami
Area: North of Downtown

Price: $840 psf

Low-Rise Scenario

State: Florida
County: Miami-Dade
City: Homestead

Price: $154 psf

Note: Prices shown are based on active developments in area, and are meant to represent a 'typical' price for a new home similar to what is assumed in development scenarios. Prices are not meant to be reflection of average pricing in a given area or on a City-wide basis

Source: Google Maps

3.2 DESCRIPTION OF APPLICABLE CHARGES

3.2.1 Florida State Charges

According to the Florida Department of Revenue, transactions that involve items that are permanently installed into a structure (or the structure itself) are not subject to the state sales tax.

3.2.2 County Charges (Miami-Dade County)

Miami-Dade County, which covers both the City of Miami and the City of Homestead, imposes several impact fees, covering costs for fire, police, schools, and parks. The County also imposes a 'supplemental' impact fee for regional impacts.

The County charges a real estate transfer tax of $0.60 per $100 of value for single-family residences, plus a surtax of $0.45 per $100 of of valuethe total

consideration. The surtax is not due on transfers of single-family dwellings, however in Miami-Dade County, these real estate transfer taxes are paid by the seller of a property.

The County has a voluntary "Workforce Housing Development Program" that provides density bonuses and other incentives for the development of workforce housing, which is defined as housing that is affordable for families whose incomes are within 60 to 140% of the County's area median income. It is assumed that the developer of the hypothetical low-rise scenario would not opt-in to this voluntary program.

3.2.3 Municipal Charges

3.2.3.1 Homestead (Low-Rise)

The City of Homestead imposes fees for the application and approval of permits related to building, plumbing, mechanical, electrical, and plan review.

3.2.3.2 City of Miami (High-Rise)

The City of Miami imposes impact fees on police, fire, and parks and recreation services. There are also area-specific impact fees levied in numerous areas throughout the City, including the Downtown, where per square foot impact fees for streets, storm sewers, solid waste, parks and general services are charged. These area-specific impact fees amount to $0.68 per square foot.

The City has recently passed an inclusionary zoning ordinance that affects properties within Miami's Omni CRA district. In return for being allowed to construct additional square footage, properties must include affordable housing (including workforce housing) in their developments. Affordable housing is defined as 80% of the area median income (AMI), while workforce housing is for people making up to 140% of AMI. A condominium development must include a minimum of 10% workforce housing and a minimum of 5% affordable housing.

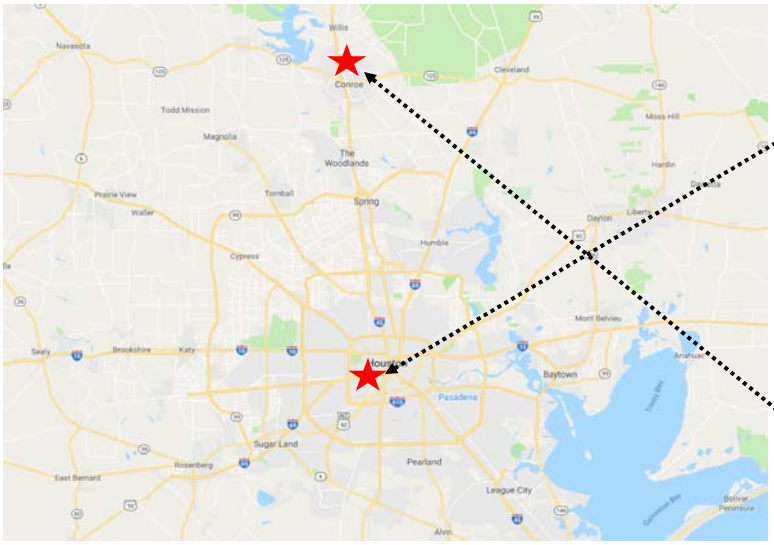
4 GREATER HOUSTON AREA

4.1 LOCATION OF SCENARIOS

The following figure shows where the low-rise and high-rise development scenarios are located for the purposes of quantifying the government charges applicable to typical developments in the Greater Houston area.

Figure 32

Location of Greater Houston Development Scenarios



High-Rise Scenario

State: Texas
County: Harris
City: Houston
Area: West of Downtowon

Price: $649 psf

Low-Rise Scenario

State: Texas
County: Montgomery
City: Conroe

Price: $127 psf

Note: Prices shown are based on active developments in area, and are meant to represent a 'typical' price for a new home similar to what is assumed in development scenarios. Prices are not meant to be reflection of average pricing in a given area or on a City-wide basis

Source: Google Maps

4.2 DESCRIPTION OF APPLICABLE CHARGES

4.2.1 Texas State Charges

Sales taxes are not added onto or included in the sales prices for new homes in Texas. Currently the State of Texas does not impose a Property Transfer Tax on real estate transactions.

4.2.2 County Charges

4.2.2.1 Montgomery County (Low-Rise)

Montgomery County charges fees related to planning approvals and building permit which only apply to projects outside the City of Conroe's limits. For the purposes of this study, it was assumed that the low-rise

development was built within the city limits, and that the County charges would therefore not apply.

Montgomery County requires that any new residential construction obtain a development permit to ensure that the project complies with the County's floodplain management regulations.

4.2.3 Municipal Charges

4.2.3.1 City of Conroe (Low-Rise)

The City of Conroe imposes fees for the application and approval of permits related to building, plumbing, water, sewer, electrical, and subdivision approval, as well as connection fees for residential connections to the water and sewer system.

The City of Conroe has an open space policy where in lieu of providing open space in the development, the developer may make a payment to the municipality in an amount equal to the average predevelopment value of a like quantity of land within the development.

4.2.3.2 City of Houston (High-Rise)

The City of Houston charges fees for various building permit applications and planning processes. Houston imposes impact fees on wastewater, water and drainage services.

The City also requires that developers dedicate land for park purposes or make a payment in-lieu of the land dedication. The fee in-lieu of the land dedication is set at $700 per dwelling unit.

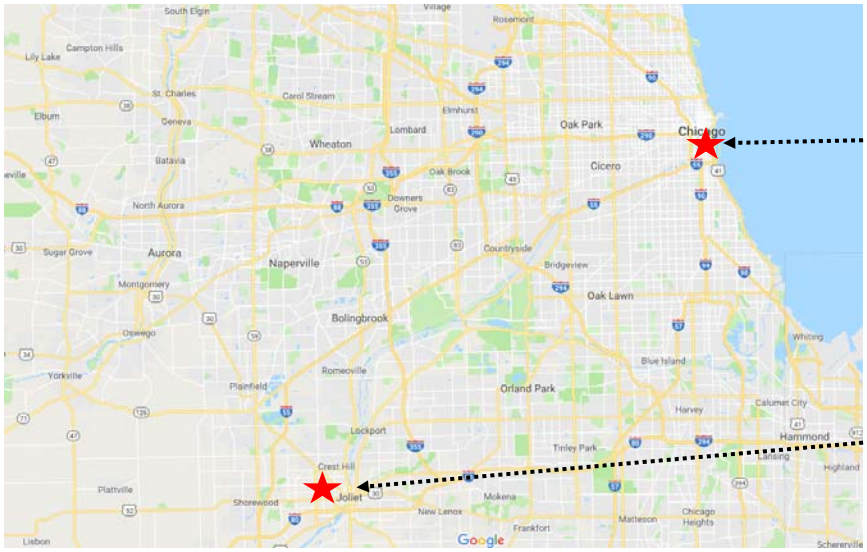
5 CHICAGO METROPOLITAN AREA

5.1 LOCATION OF SCENARIOS

The following figure shows where the low-rise and high-rise development scenarios are located for the purposes of quantifying the government charges applicable to typical developments in the Chicago Metropolitan Area.

Figure 33

Location of Chicago Metropolitan Area Development Scenarios



High-Rise Scenario

State: Illinois
County: Cook
City: Chicago
Area: Downtown Chicago, River North

Price: $760 psf

Low-Rise Scenario

State: Illinois
County: Will
City: Joliet

Price: $126 psf

Note: Prices shown are based on active developments in area, and are meant to represent a 'typical' price for a new home similar to what is assumed in development scenarios. Prices are not meant to be reflection of average pricing in a given area or on a City-wide basis

Source: Google Maps

5.2 DESCRIPTION OF APPLICABLE CHARGES

5.2.1 Illinois State Charges

As new housing construction is defined as "real property", sales taxes are not added onto or included in the sales prices for new homes in Illinois.

5.2.2 County Charges

5.2.2.1 Will County (Low-Rise)

Will County charges for plan examination for new developments and site development permits, but does not appear to impose any other fees, such as impact fees, etc.

5.2.2.2 Cook County (High-Rise)

Cook County imposes charges for building permits as well as certain planning review fees.

5.2.3 Municipal Charges

5.2.3.1 City of Joliet (Low-Rise)

The City of Joliet charges fees for various building permit applications and planning processes. The City also requires that developers dedicate land for school sites or make a cash contribution in lieu of actual land dedication where the number of children generated from a development is too few to support a stand-alone school. If the cash contribution option is relied upon instead, a detached single-family home would pay $2,943 per unit for elementary schools and $968 per unit for high schools (assuming 4-bedroom single-detached units).

The City also charges a Real Estate Transfer Tax of $3.00 per $1,000 in purchase price - this tax is paid by the seller.

5.2.3.2 City of Chicago (High-Rise)

The City of Chicago imposes a Real Property Transfer Tax of $5.25 per $500 of transfer price, which includes $1.50 per $500 added in April 2008 for providing funding to the Chicago Transit Authority. Of the $5.25 per $500 tax rate, the buyer is responsible for $3.75 per $500 and the seller is responsible for $1.50 per $500.

The City also imposes an Open Space Impact Fee, which is charged on a per unit basis, depending on the size of the residential unit, but generally ranges from $313 to $1,253 per unit.

The City also imposes Zoning Review Fees and building permit fees.

The City's Affordable Requirements Ordinance ("ARO") requires residential developments that receive City financial assistance or involve City-owned land to provide a percentage of housing units at affordable prices. Where the number of housing units being developed is greater than 10, the developer must provide 10% of the units at affordable prices. Where financial assistance is received by the City, the share increases to 20%. It is assumed that the high-rise development scenario would be on privately-owned land and

would not receive financial assistance, so for the purposes of this report, ARO would not apply.

In 2016, the City of Chicago brought the Neighbourhood Opportunity Bonus into effect, which allows for additional development in the Downtown area, and provides funding sources to encourage commercial development in underperforming areas of the City. The cost is determined by taking 80% of the median cost of land per buildable square foot. The median costs are prescribed and range from $22 to $43 per square foot.

It is assumed that the high-rise development scenario used in this report, is allowed for 100,000 square feet, with the remaining 25,000 square feet a requested bonus amount. Using the Downtown North cost of land per buildable square foot, this would therefore require a contribution of $860,000, or $6,880 per unit.

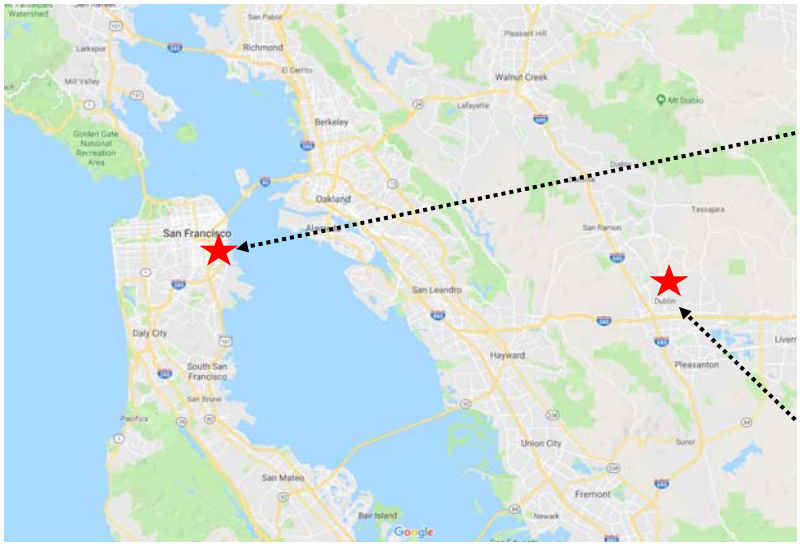
6 SAN FRANCISCO BAY AREA

6.1 LOCATION OF SCENARIOS

The following figure shows where the low-rise and high-rise development scenarios are located for the purposes of quantifying the government charges applicable to typical developments in the San Francisco area.

Figure 34

Location of San Francisco Bay Area Development Scenarios



High-Rise Scenario

State: California
County: San Francisco
City: San Francisco
Area: Financial District (Transit Center)

Price: $1,803 psf

Low-Rise Scenario

State: California
County: Alameda County
City: Dublin

Price: $460 psf

Note: Prices shown are based on active developments in area, and are meant to represent a 'typical' price for a new home similar to what is assumed in development scenarios. Prices are not meant to be reflection of average pricing in a given area or on a City-wide basis

Source: Google Maps

6.2 DESCRIPTION OF APPLICABLE CHARGES

6.2.1 California State Charges

The State of California does not impose sales taxes on the purchase of new homes.

6.2.2 County Charges

6.2.2.1 San Francisco County (High-Rise Scenario)

San Francisco County does not appear to levy any charges against new development.

6.2.2.2 Alameda County (Low-Rise Scenario)

The Alameda County Community Development Agency levies building permit fees, including for construction, electrical, plumbing and mechanical permits.

6.2.3 Municipal Charges

6.2.3.1 City of San Francisco (High-Rise Scenario)

The City of San Francisco imposes several impact fees, including transportation sustainability fees, wastewater and water capacity charges, a school impact fee, as well as fees for child care, open space, and 'transit delay mitigation'.

There is also a substantial impact fee related to Inclusionary Affordable Housing, which amounts to $199.50 per sf, as applied to between 20% and 33% of a project's gross floor area, depending on the size of the project.

6.2.3.2 City of Dublin (Low-Rise Scenario)

The City of Dublin imposes several impact fees. For the fiscal year 2019-2020, the impact fees imposed on new single-detached housing are summarized in the table below. The Public Facilities Impact Fee is $26,311 per single-detached unit. There are also numerous other fees associated with fire services, traffic impacts, freeway interchanges and transportation. In total, the various impact fees amount to $66,725 per unit.

The City has an ordinance (Inclusionary Zoning Regulations Ordinance) that requires 12.5% of the units constructed in a Residential Development be reserved for occupancy by low- and moderate-income households in for-sale units, or by Very Low-, Low-, and Moderate-Income households in rental units. The Ordinance permits a developer to meet up to 40% of its obligation by paying an "In-Lieu" fee, leaving a 60% "must-build" requirement, with the units needing to be "Below Market Rent" units (or "BMR Units") and are to remain affordable for 55 years through restrictions recorded against the property.

For the low-rise development scenario, the applicant would need to provide 16 affordable housing units (125 units x 12.5% = 15.625 units, rounded up to 16). Six (6) of these 16 units could be provided via cash in-lieu, with the

remaining 10 units needing to be constructed within the development. The Affordable Housing In-Lieu Fee is $197,253 per unit provided in-lieu.

The "must-build" units must be allocated 60% to Moderate Incomes and 40% to Low Incomes. The maximum sales price for the BMR ownership units are based on incomes so that annual housing expenses do not exceed 35% of the maximum income level for Low- and Moderate-Income Households.

6.2.4 Other Agencies

6.2.4.1 Dublin San Ramon Services District (Low-Rise)

The Dublin San Ramon Services District (DSRSD) is responsible for the provision of water and wastewater services in the City of Dublin and surrounding area. The DSRSD levies fees related to project planning and plan review, including a $3,205 application fee and a per unit fee of $615 per single-family home for plan review for the first five units, and $190 for each additional residential unit.

6.2.4.2 Dublin Unified School District (Low-Rise)

The School District in the area levies charges on new development of $8.55 per square foot for all residential development.

BILD Municipal Benchmarking Study

Independent Real Estate Intelligence

September 2020





BILD
Municipal Benchmarking Study

Prepared for:

Building Industry and Land Development Association (BILD)

Prepared by:

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September 2020

EXECUTIVE SUMMARY

Altus Group Economic Consulting was retained by BILD to undertake a study of several factors that may be contributing to housing affordability issues in major housing markets across the Greater Toronto Area (GTA), such as municipal approval processes, resulting timelines for approvals, and government charges levied by municipalities.

The study compares approaches that municipalities have in place to deal with the approval and ultimate development of new housing and highlights key features (and associated benefits of those features) in bringing new housing to approval and ultimate construction, as well as the cost implications of the municipal processes and policies. The analysis presented in the study was based on research done on 18 municipalities across the GTA.

Statistical and Demographic Overview

A review of statistical and demographic data in the municipalities under study reveals several trends that are causes of, or effects of, housing affordability issues throughout the GTA:

- Population is increasing in each municipality studied, and in most cases, this trend is accompanied by falling average household sizes. This phenomenon increases housing demand in two ways. The first effect is through the straightforward addition of net new persons moving into a municipality as part of an expanding population and the second effect of household sizes falling results in needing more residential units at a minimum just to house the existing population;
- There has been a significant increase in net international immigration and net non-permanent residents (e.g. temporary workers, students, etc.) in recent years, adding to demand for new housing;
- In some areas of the GTA (Toronto, Peel, York), there has been a large amount of net out-migration of residents from these areas to other parts of the province (i.e. intraprovincial migration), particularly by adults between ages 25 to 44 (as well as children aged 0 to 14), suggesting that persons forming households, particularly young families, are searching for locations with more affordable and/or suitable housing. The problem is most evident in higher-priced markets that have fewer ground-related family housing options being built;
- There has been a shift in the types of housing being built, with an increased emphasis on apartment housing units in most municipalities studied across the GTA. However, these housing units provide less capacity for persons on a per-unit basis due to generally smaller unit sizes, fewer bedrooms, etc. than most ground-related housing units;

- While there has been a shift in household tenure towards renting in all municipalities studied, the construction of purpose-built rental units continue to be less than 10% of the housing starts in most municipalities in the GTA (except in Toronto and Oshawa);
- Housing prices in the GTA municipalities studied have increased significantly. Over the 2006-2018 period, average prices of absorbed single detached homes have increased by an average of 158%, which equates to average annual increase of 7.6%, compounded annually.

Analysis of Municipal Processes

To understand whether municipal processes could be improved to expedite the review of new housing applications, or improve the quality of submissions from applicants, we have reviewed the presence and nature of several planning tools made available, or other features that may assist in making the development application and approval more efficient:

- The method of implementation, level of transparency, and processes regarding decision making can differ significantly from one municipality to the next. There are large variations, such as the degree of authority delegated to municipal staff, composition of planning approval committees, structure of planning department, etc.
- Some features, which could potentially help reduce development approval timelines, are not used extensively by all municipalities. Examples include development tracking portals that provide both an applicant and other relevant parties insight into the status of applications under review, easy to find resources that are frequently used or requested like terms of reference for required studies, zoning maps and other parcel level data, online submission portals to facilitate easy submissions, etc.
- The number of studies that may be required by municipalities was found to be onerous, with the requirements for an application in many municipalities ranging from 17 to 28 different studies for a single project, depending on the municipality, application type, and location of development. The required quantity and variety of technical studies, even if valid to ensure that developments are in the public interest, results in significant costs to the applicant both directly in terms of time and expense in retaining necessary experts to complete the required reports and studies, but also the time to allow municipal staff to review and comment on the findings of the various studies.

Analysis of Municipal Approval Timelines

After building a robust database of recently approved development applications for the municipalities under study, it has been found that

timelines for approvals from municipalities can, in some cases, take an average of up to 2 years to obtain.

Applications requiring multiple application types took on average just 20% to 30% longer than applications that required one type of application, suggesting that generally it is more efficient to bundle applications together for concurrent review rather than to require them be submitted and approved sequentially.

Applications requiring a ruling by the Local Planning Appeal Tribunal ("LPAT"), either initiated by the applicant or another party, extended timelines by nearly double compared to a municipal council approval. Seeking an approval from the LPAT is very costly, time-consuming, and risky for the applicant.

Additional time associated with getting overarching land use designations approved, the pre-submission stage, and the construction approvals stages were not part of the study, however, based on feedback from development industry members, it is clear that the "pre-application" period represents significant additional time over and above the timelines estimated for development application approval.

Quantifying Municipal Charges on New Housing Development

The modelling of municipal charges on new housing development was based on two hypothetical development scenarios – one low-rise, and the other high-rise. The analysis found that in many municipalities there are significant charges imposed by municipalities on new development, and that these charges can vary significantly from one municipality to the next.

Figure ES- 1

Development Scenario	Average Government Charge per Unit	Average Government Charges as % of Housing Prices
Low-Rise Development	$93,700	9.7%
High-Rise Development	$57,800	10.7%

For example, municipal charges on new housing developments are generally the highest in municipalities located in York Region, Peel Region and the City of Toronto.

The most significant charge in all of the studied municipalities is the development charge (DCs), which are levied by each lower-tier, upper-tier and single-tier municipality studied. Typically, DCs amount from 75% to 85% of the total municipal charges payable for a new low-rise development, and from 68% to 90% for high-rise.

The second most substantial charge was usually parkland dedication requirement or cash-in-lieu payment, averaging to 17% of the total municipal charges payable for low-rise development and 26% for high-rise.

Indirect Costs of Time Spent Gaining Approval

This report also quantifies the financial benefits of moving towards a more efficient, responsive and/or streamlined municipal approvals, by quantifying some of the "indirect" costs of time spent gaining municipal approvals. The results of the modelling are expressed on the basis of 'costs per month', which puts all of the various elements of this analysis onto one equal basis and allows for the calculation of impacts of time saved in the approvals process to be quantified. The costs modelled include:

- Additional taxes payable on vacant land;
- Increases to municipal charges and fees;
- Carrying costs of loans;
- Construction cost and wage inflation

The costs stemming from each additional month a project spends in the approvals process can add significantly to total project costs, and ultimately those costs will be passed onto home buyers.

Figure ES- 2

Development Scenario	Average Additional Costs
Low-Rise Development	$1.46 per square foot / month
High-Rise Development	$2.21 per square foot / month

Best Practices

The recently adopted Bill 108 has shortened timelines for municipal decisions on development applications. Municipalities will have to render decisions significantly more quickly in some cases. The benefit of these shortened timelines should result in not only better timelines for developers, but it could also create significant incentive for municipalities to re-examine their processes, workflow, technology, and organizational structures to find efficiencies and more effective ways of reviewing applications within the allotted time.

Figure ES- 3

Planning Application Type	Timelines Prior to Bill 108	Timelines after Bill 108
Official Plan Amendment	210 Days	120 Days
Zoning By-law Amendment	150 Days	90 Days
Plan of Subdivision	180 Days	120 Days
Site Plan	30 Days	30 Days

Based on a scan of programs initiated by municipalities to improve their development review processes, there are several key areas routinely identified as being areas for improvement, including:

- Reducing miscommunication which can creates conflicts that lead to delays;
- Pay close attention to workflows and team composition;
- Empower staff with more delegated powers;
- Reduce required statutory processes where possible; and
- Improvements are limited without technology.

Many of the best practices of the municipalities reviewed are highly transferable, however, ultimately each municipality will have its own set of unique circumstances that must be taken into account.

Conclusion

The overall findings in the report incorporate the rankings from the three major elements studied that feed into housing affordability – providing tools and features to improve quality of submissions, ensuring approvals are done in an expedient manner, and housing costs stemming from government charges that get borne by buyers/renters.

Overall, the municipalities of Barrie, Burlington and Oakville rank atop the list, all three with top-half ranks in each of the categories. The largest municipalities by population among those studied (Toronto, Mississauga, Brampton, Markham, Vaughan) all rank on an overall basis no higher than 10th.

Figure ES- 4

Overall Scorecard - Planning Features, Government Charges, Approvals Timelines

	Planning Features	Government Charges	Approvals Timelines	Score (Average Rank)	Rank
	rank (1=best)	*rank (1=lowest)*	*rank (1=best)*	*lower=better*	
Barrie	2	3	5	3.3	1
Burlington	2	6	3	3.7	2
Oakville	2	9	4	5.0	3
Clarington	7	1	9	5.7	4
Oshaw a	16	5	1	7.3	5
Pickering	11	2	10	7.7	6
Innisfil	15	7	2	8.0	7
Milton	7	10	n.a	8.5	8
Whitby	16	4	7	9.0	9
Toronto	1	14	15	10.0	10
Vaughan	6	17	8	10.3	11
Mississauga	9	11	13	11.0	12
Brampton	5	15	14	11.3	13
Richmond Hill	11	13	11	11.7	14
Caledon	9	12	16	12.3	15
Aurora	11	16	12	13.0	16
BWG	14	8	17	13.0	16
Markham	18	18	6	14.0	18

Note: Government Charges based on average of low-rise and high-rise scenarios, as measured by government charges as % of housing prices

Source: Altus Group Economic Consulting

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1 INTRODUCTION

1.1 BACKGROUND & SCOPE OF STUDY

Altus Group Economic Consulting was retained by BILD to undertake a study of several factors that may be contributing to housing affordability issues in the Greater Toronto Area (GTA).

The study looks at several factors such as municipal approval processes, timelines for approvals, and government charges, and compares approaches that studied municipalities have in place to deal with the approval and ultimate development of new housing and makes an effort to highlight key features and associated benefits in bringing new housing to approval and ultimate construction.

In addition to reviewing the direct costs municipalities place on new housing developments, the study also looks at the potential implications of approval processes and the typical approval timelines by estimating the indirect costs associated with time that applications may spend in the review and approval process.

1.2 APPROACH

1.2.1 Topics Covered

This report looks at several areas that have direct links to issues related to housing supply and/or housing affordability, including factors that impact the timeliness in which developers and landowners are able to bring new housing supply onto the market, and the costs of developing new housing.

Figure 1

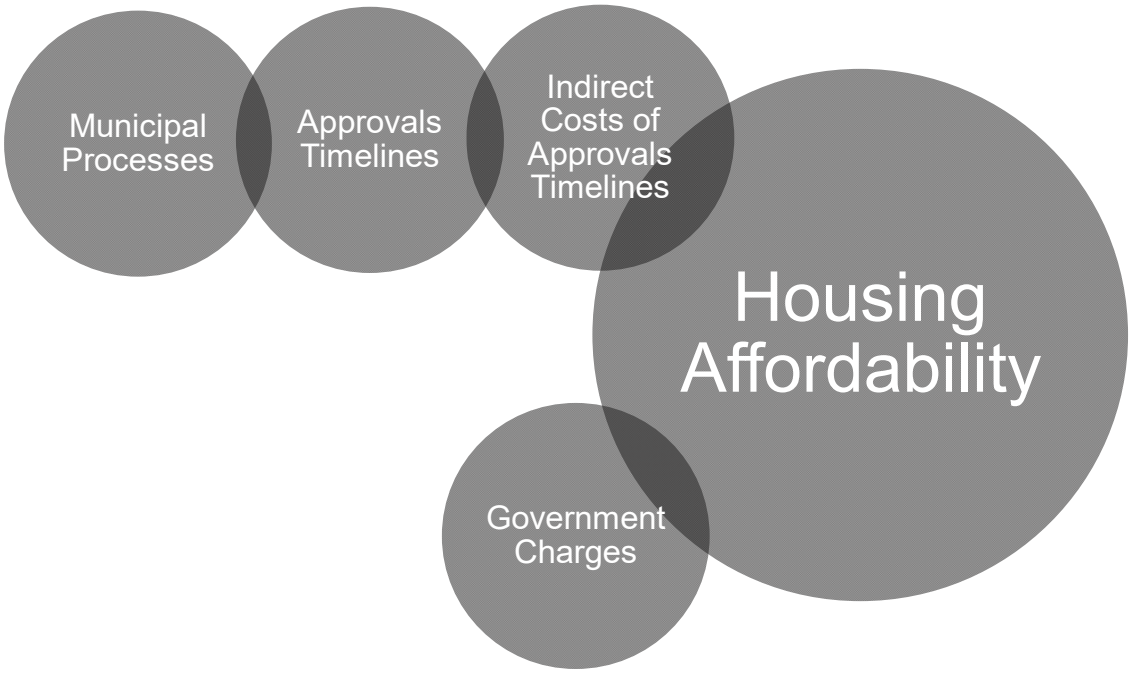
Subject Area	Approach
Demographic and Statistical Overview	Provide overview of trends in housing construction (tenure, form, prices), and shifts in population.
Analysis of Municipal Planning Approval Processes	Review of the features and tools utilized by municipalities to facilitate more efficient and transparent development processes.
Review of Municipal Charges Imposed on New Development	Using two hypothetical development scenarios, estimate the direct costs that municipalities levy on new housing developments, costs which are ultimately passed on to new home buyers (or renters) through higher prices (or rents).

Sampling of Municipal Approvals Timelines	Estimating the amount of time that typical development applications spend in the municipal approvals process.
Quantification of Indirect Costs of Time Associated with Approval Processes	Estimating the indirect costs associated with each additional month a development application is in the approvals process.
Analysis and Review of Best Practices	A high-level review of recent and ongoing initiatives that municipalities or Provincial governments are taking to streamline approvals processes, reduce costs of development, etc.

The various sections of the report flow so as to create a picture of the potential causes, effects, and impacts of housing affordability.

Figure 2

How Components of Report Relate to Each Other and Affect Housing Affordability



The section on municipal processes attempts to show how features present in the provincial and municipal planning systems can and do impact approvals timelines. The analysis of municipal timelines analyses a robust sample of recent development approvals in municipalities across the GTA to

understand what typical timelines are. The analysis of indirect costs associated with approval timelines expresses the costs that each month spent gaining approval can add to the development of residential projects.

Both the indirect costs associated with approvals timelines and the government charges quantified in a separate section, which are directly charged to developers and landowners, impact housing affordability as developers and home builders seek to recover development costs through home prices.

1.2.2 Geographic Scope

The study looks at the planning processes in a total of 18 municipalities in the Greater Toronto Area:

Figure 3

Region	Area Municipality
Toronto	City of Toronto
York Region	Vaughan, Markham, Richmond Hill, and Aurora
Peel Region	Brampton, Mississauga, and Caledon
Halton Region	Oakville, Burlington, and Milton
Durham Region	Pickering, Whitby, Oshawa, and Clarington
Simcoe County	Barrie, Innisfil, and Bradford West Gwillimbury (or "BWG")

1.3 CAVEATS

The report looks at factors that may be contributing to housing affordability issues in the Greater Toronto Area, such as planning processes, demographic factors, government charges, timelines for gaining approvals for new housing, etc. However, these factors are not meant to represent an exhaustive list of factors that contribute towards housing affordability issues.

The information presented in this report is based on interpretation of various municipal policies, by-laws, rate schedules, etc. While every effort has been made to interpret these materials accurately, there can be no certainty that municipal stakeholders will apply their policies and rates in the same manner as interpreted here.

The models at the core of this report frequently rely upon inputs and assumptions, such as assumed land values, estimated housing prices, and development yields from hypothetical development sites. These inputs and

assumptions are intended for the purposes contained herein, and should not be used for any other purposes, or relied upon in any manner other than how they are used within this report.

The data presented in this report is based on the latest data available as of the writing of the report, but given the types of data used, the most recent iteration of data may vary from one chart, table, or figure to the next. For example, as of the time of writing of this report, CMHC data on housing starts is available to the end of 2019, while Statistics Canada Census data is only current as of mid-2016.

2 MUNICIPAL DATA

This section provides a high-level overview of key demographic characteristics in the studied municipalities, and presents some key statistics related to housing development and affordability in these markets.

2.1 CENSUS DATA

2.1.1 Population Change

Figure 4 shows the population in each of the municipalities being studied in this report, and the average annual change over the past two five-year Census periods. The average annual change in these municipalities has been 1.68% per year for the 2006-2011 period, and 1.16% for the 2011-2016 period.

Figure 4 **Population and Average Annual Population Change, Selected Municipalities, 2006-2016**

	Population			Average Annual Population Change	
	2006	2011	2016	2006-2011	2011-2016
Municipality		*Persons*		*Percent Change*	
Burlington	164,415	175,779	183,314	1.35%	0.84%
Oakville	165,613	182,520	193,832	1.96%	1.21%
Milton	53,939	84,362	110,128	9.36%	5.48%
Mississauga	668,549	713,443	721,599	1.31%	0.23%
Brampton	433,806	523,906	593,638	3.85%	2.53%
Caledon	57,050	59,460	66,502	0.83%	2.26%
Toronto	2,503,281	2,615,060	2,731,571	0.88%	0.88%
Vaughan	238,866	288,301	306,233	3.83%	1.21%
Richmond Hill	162,704	185,541	195,022	2.66%	1.00%
Markham	261,573	301,709	328,966	2.90%	1.74%
Aurora	47,629	53,203	55,445	2.24%	0.83%
Pickering	87,838	88,721	91,771	0.20%	0.68%
Whitby	111,184	122,022	128,377	1.88%	1.02%
Oshawa	141,590	149,607	159,458	1.11%	1.28%
Clarington	77,820	84,548	92,013	1.67%	1.71%
Bradford West Gwillimbury	24,039	28,077	35,325	3.15%	4.70%
Innisfil	31,175	32,727	36,566	0.98%	2.24%
Barrie	128,430	136,063	141,434	1.16%	0.78%
Total	5,359,501	5,825,049	6,171,194	1.68%	1.16%

Source: Altus Group Economic Consulting based on 2006, 2011 and 2016 Census Data

2.1.2 Average Household Size

Figure 5 shows the number of private occupied dwellings in each municipality, and the average household size, as well as how the average household sizes have changed between 2006 and 2016.

In most studied municipalities, the average household size has declined over the 10-year 2006-2016 period, significantly so in some cases. A decline in average household size in a municipality can be driven by many

demographic factors, including declining fertility rates, an increase in the number of persons living alone, etc. However, declining average household sizes means that there is a demand for new housing even if the overall population was unchanged.

Figure 5 **Private Occupied Dwellings, Average Household Size, and Change in Average Household Size, Selected Municipalities, 2006-2016**

	Private Occupied Dwellings		Average Household Size		
	2006	2016	2006	2016	Change
Municipality	*Households*		*Persons per Unit*		
Burlington	63,255	71,373	2.60	2.57	(0.03)
Oakville	56,575	66,269	2.93	2.92	(0.00)
Milton	18,465	34,257	2.92	3.21	0.29
Mississauga	214,925	240,913	3.11	3.00	(0.12)
Brampton	125,930	168,011	3.44	3.53	0.09
Caledon	18,210	21,256	3.13	3.13	(0.00)
Toronto	979,440	1,112,929	2.56	2.45	(0.10)
Vaughan	69,535	94,253	3.44	3.25	(0.19)
Richmond Hill	51,000	64,116	3.19	3.04	(0.15)
Markham	77,195	102,676	3.39	3.20	(0.18)
Aurora	15,655	18,851	3.04	2.94	(0.10)
Pickering	28,220	30,919	3.11	2.97	(0.14)
Whitby	37,240	43,529	2.99	2.95	(0.04)
Oshawa	54,925	62,595	2.58	2.55	(0.03)
Clarington	26,850	32,838	2.90	2.80	(0.10)
Bradford West Gwillimbury	7,950	11,591	3.02	3.05	0.02
Innisfil	11,400	13,364	2.73	2.74	0.00
Barrie	46,515	52,476	2.76	2.70	(0.07)
Total	1,903,285	2,242,216	2.82	2.75	(0.06)

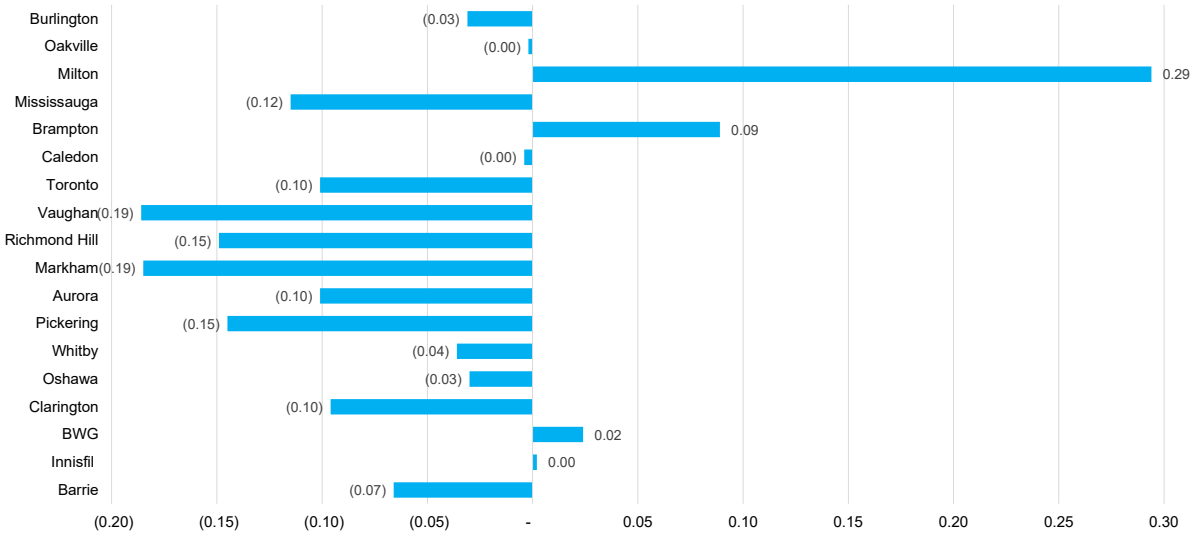
Source: Altus Group Economic Consulting based on 2006 and 2016 Census Data

Of the 18 municipalities, the average household size increased in four municipalities, including Milton (+0.29 persons per unit), Brampton (+0.09), BWG (+0.02) and Innisfil where there was a slight increase. In the other 14 municipalities, there were slight-to-significant declines, with decreases upwards of 0.14 to 0.19 persons per unit in municipalities such as Vaughan, Richmond Hill, Markham, and Pickering.

Figure 6

Change in Average Household Size, 2006-2016

Persons per Unit



Source: Altus Group based on 2006 and 2016 Census data

2.1.3 Migration Data

Using Statistics Canada data on migration can provide information on the sources of population change within the upper-tier (or single-tier) municipalities with the GTA. Beyond natural life factors that affect population (such as births and deaths), there are four key flows of people into and out of municipalities and regions:

- **Intraprovincial migration** - persons moving in/out of the municipality or metropolitan area, but staying within the same province;
- **Net immigration** - persons arriving from outside of Canada (as permanent residents) minus persons that were living in Canada leaving the country;
- **Net Interprovincial migration** – net inflow or outflow of persons moving into of a municipality or region from another province (or vice versa);
- **Net non-permanent residents** – net inflow or outflow of persons such as temporary workers, students, etc.

For example, over the 10-year period ending mid-year 2019, the City of Toronto has seen several distinct movements of population in and out of the City:

- A net outflow of 277,200 persons that have left the City for other parts of the province of Ontario (intraprovincial migration);
- An additional 411,400 persons residing in the City from net immigration (persons coming to reside in the City from outside of Canada);

- A net inflow of approximately 22,700 persons moving to reside in the City from interprovincial migration – persons moving to the City from other places in Canada outside of Ontario; and
- An additional 124,600 net new non-permanent residents (comprised on international students, temporary workers, etc.).

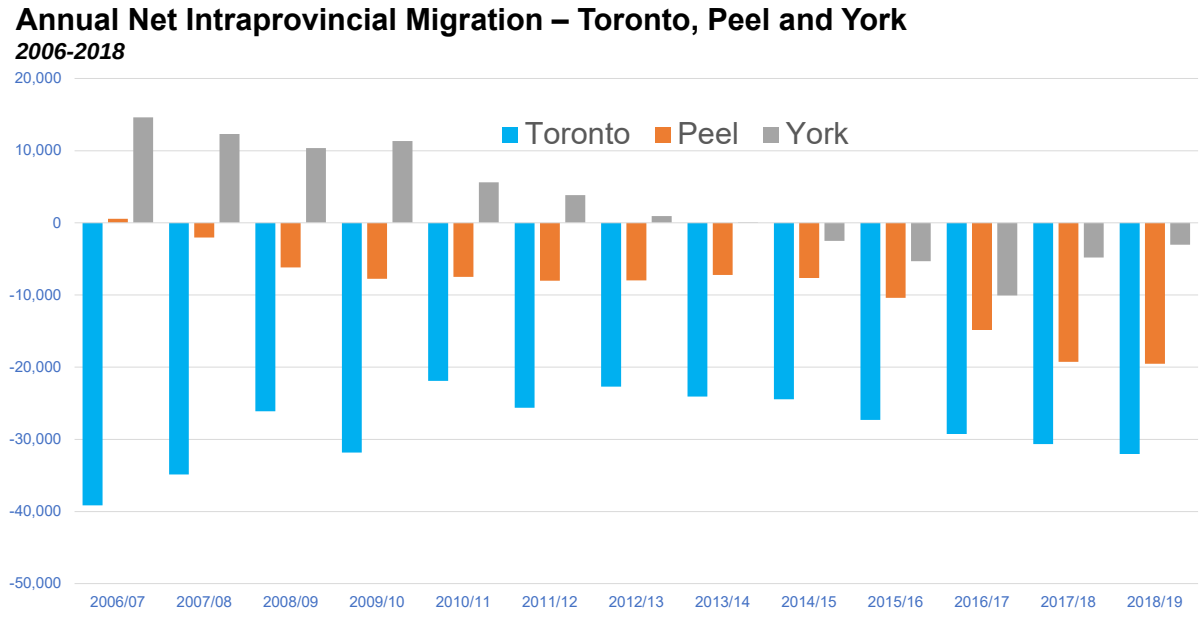
Figure 7 **Migration by Census Division, 2009-2010 to 2018-2019, Ranked by Net Intraprovincial Migration**

	Net Intraprovincial Migration		Net Immigration		Net Interprovincial Migration		Net Non-Permanent Residents		
	Amount	Rank	Amount	Rank	Amount	Rank	Amount	Rank	Total
Census Division	*Persons*		*Persons*		*Persons*		*Persons*		
Simcoe County	71,112	1	2,714	6	(6,864)	4	6,120	4	73,082
Durham Region	53,487	2	14,061	5	(8,029)	5	4,731	6	64,250
Halton Region	43,342	3	18,936	4	455	2	5,687	5	68,420
York Region	(2,373)	4	73,122	3	(510)	3	12,977	3	83,216
Peel Region	(110,545)	5	189,668	2	(8,420)	6	53,720	2	124,423
Toronto	(277,222)	6	411,423	1	22,715	1	124,639	1	281,555

Source: Statistics Canada, 2018-2019 Annual Demographic Estimates

A significant outflow of persons from a municipality to other parts of a province (intraprovincial migration) can be due to households leaving an area due to a lack of desired housing options in a municipality, or the unaffordability of the housing options that are available. Of the six regions within the GTA, three (Toronto, Peel and York) are experiencing net outflows of residents to other parts of Ontario, significantly so for Toronto and Peel. In these three regions, the net number of persons leaving the regions for other pars of Ontario has been increasing in Peel and York, and more recently so in Toronto.

Figure 8



Source: Altus Group based on Statistics Canada, Annual Demographic Estimates data

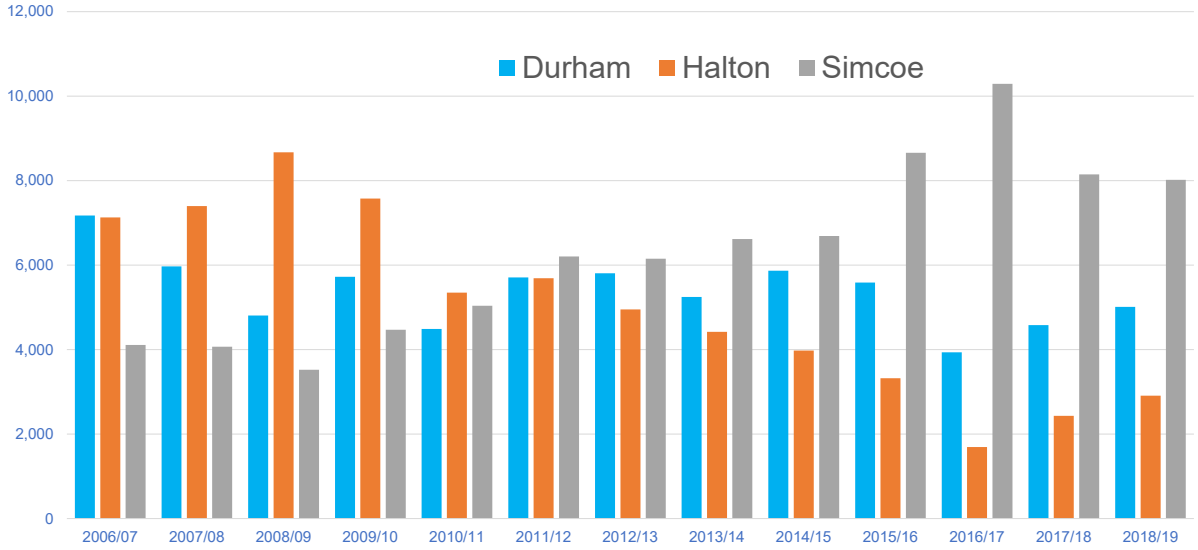
For the three other regions within the GTA that have been seeing net inflows of people from elsewhere in the province:

- The net inflows in Halton have been decreasing steadily from the highs of 2006-2010, but remain positive on an annual basis;
- The net inflows into Durham have generally remained steady at between 4,000 and 6,000 persons per year; and
- The net inflows into Simcoe have been increasing, with the last four years the highest in the 13-year period, all at or above 8,000 persons of net inflow.

Figure 9 shows the annual Intraprovincial trends for Halton, Durham and Simcoe.

Figure 9

Annual Net Intraprovincial Migration – Halton, Durham and Simcoe
2006-2018



Source: Altus Group based on Statistics Canada, Annual Demographic Estimates data

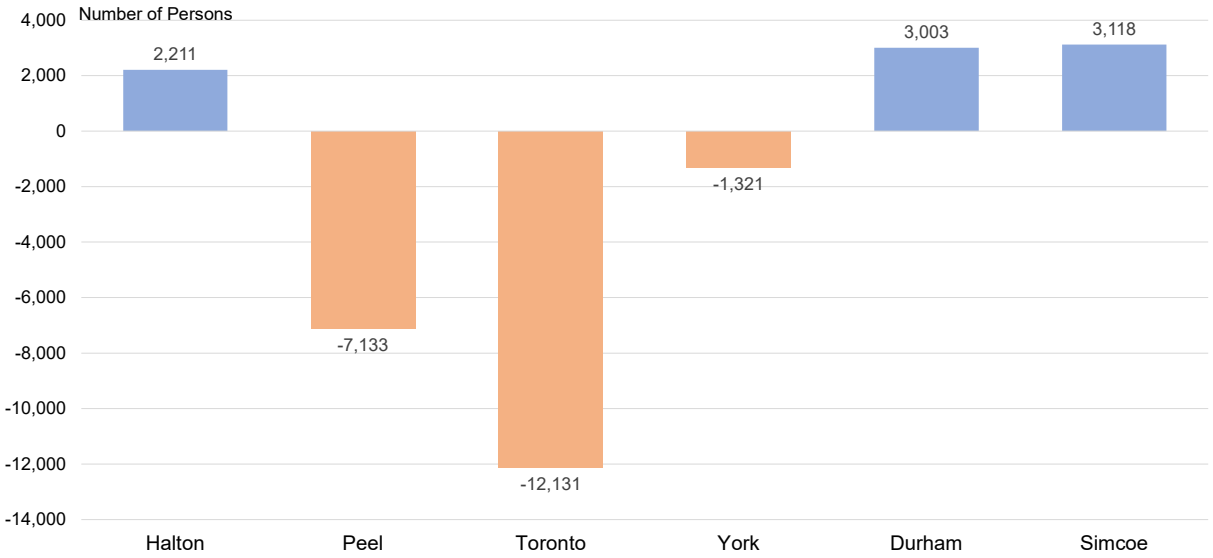
To understand the nature of the Intraprovincial flows to/from the six GTA regions to/from other parts of Ontario, Figure 10 below shows Intraprovincial migration by age for the year 2018-2019.

Areas with outflows are seeing the net outflows driven by persons aged 25-44. Meanwhile, Halton, Durham and Simcoe are gaining persons in this age group from other parts of the province, with a significant proportion likely coming from nearby places such as Peel, York and Toronto.

The data appears to indicate that a lack of housing both affordable and suitable for families is resulting in younger families (and their children) leaving the inner parts of the metropolitan areas (Toronto, Peel, York) that

generally have higher prices for areas with more affordably priced and suitable housing options for families.

Figure 10 **Intraprovincial Migration for Age Group 25-44, *2018-2019, Greater Toronto Area***



Source: Altus Group based on Statistics Canada, Annual Demographic Estimates, 2018-2019

2.2 HOUSING TENURE

An analysis of the tenure of occupied dwellings shows that there has been an increase in the share of renter households in every one of the studied municipalities. As of 2016, only five (5) of the 18 municipalities have shares of renter households greater than 20%.

An increased share of renter households does not necessarily mean that there has been an increase in the amount or share of housing built as 'purpose-built' rental housing. Instead, this could also mean that there has been an increase in the size of the secondary rental market (rented single-detached, semi-detached, townhouse units, and condominium apartments put on the secondary rental market).

Figure 11 **Household Tenure in Studied Municipalities, Ranked by Highest Share of Renter Households in 2016**

	Share of Renter Households			% Increase in Households by Tenure	
	2006	2016	Change in Pct. Points	Owner	Renter
Municipality	*Percent Share*			*Percent Change*	
Toronto	45.6%	47.2%	1.6	10%	18%
Oshawa	30.1%	31.5%	1.4	12%	19%
Barrie	23.6%	28.8%	5.2	5%	38%
Mississauga	25.0%	27.7%	2.7	8%	24%
Burlington	20.4%	23.6%	3.2	8%	30%
Brampton	18.5%	20.0%	1.5	31%	44%
Oakville	15.9%	18.3%	2.4	14%	35%
Richmond Hill	13.7%	17.6%	3.8	20%	61%
Bradford West Gwillimbury	17.2%	17.3%	0.1	46%	47%
Whitby	16.0%	16.7%	0.7	16%	22%
Aurora	14.2%	16.1%	1.9	18%	36%
Milton	11.9%	14.1%	2.2	81%	120%
Markham	11.3%	13.9%	2.7	29%	64%
Pickering	10.9%	12.6%	1.7	7%	26%
Clarington	11.2%	11.9%	0.7	21%	30%
Innisfil	6.7%	11.6%	4.9	11%	103%
Vaughan	7.3%	10.4%	3.1	31%	94%
Caledon	8.6%	9.2%	0.6	16%	25%

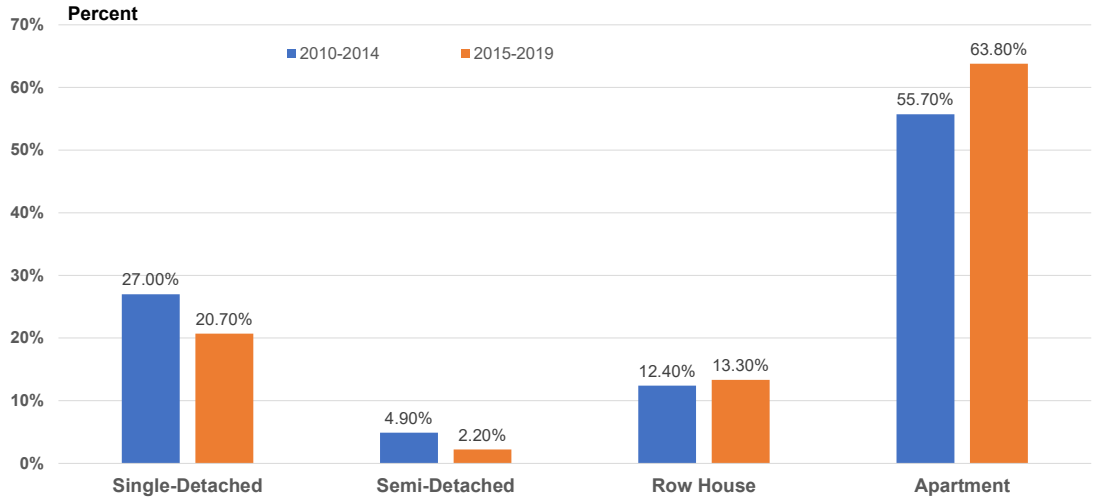
Source: Altus Group Economic Consulting based on 2006 and 2016 Census of Canada

2.3 HOUSING STARTS & COMPLETIONS

Figure 12 shows how housing starts by housing type have changed in the studied municipalities over the past ten years, as broken out into separate five-year periods.

Figure 12 **Change in Housing Starts by Structure Type**

Selected Municipalities, 2010-2019, by 5-Year Period



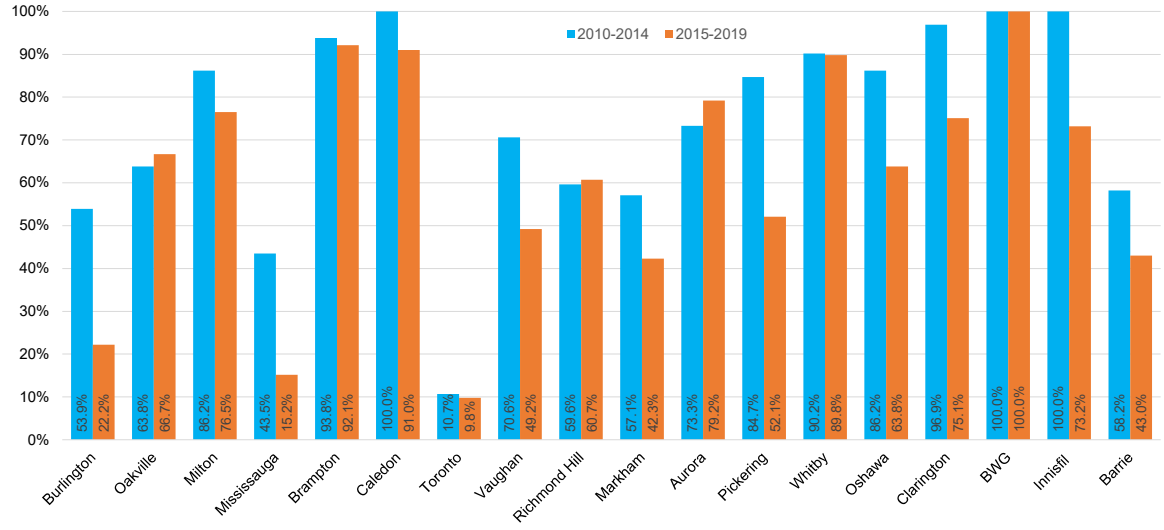
Source: Altus Group based on CMHC Housing Starts data

There has been an increasing proportion of housing starts in higher density forms such as row houses and apartment, while lower density housing forms (single-detached and semi-detached) have declined in share.

Of the 18 municipalities studied, 14 municipalities have seen declines in the share of ground-related housing starts over the past two five-year periods (see Figure 13). The only municipalities with increases in share of ground-related housing have been Richmond Hill, Oakville, and Aurora, however, these increases were relatively modest, ranging from increases in share of 1.1 to 5.9 percentage points. The share of ground-related housing in Bradford West Gwillimbury has remained unchanged, at 100% in both periods.

Figure 13 **Change in Share of Ground-Related Housing Starts by Municipality**

2010-2014 vs. 2015-2019

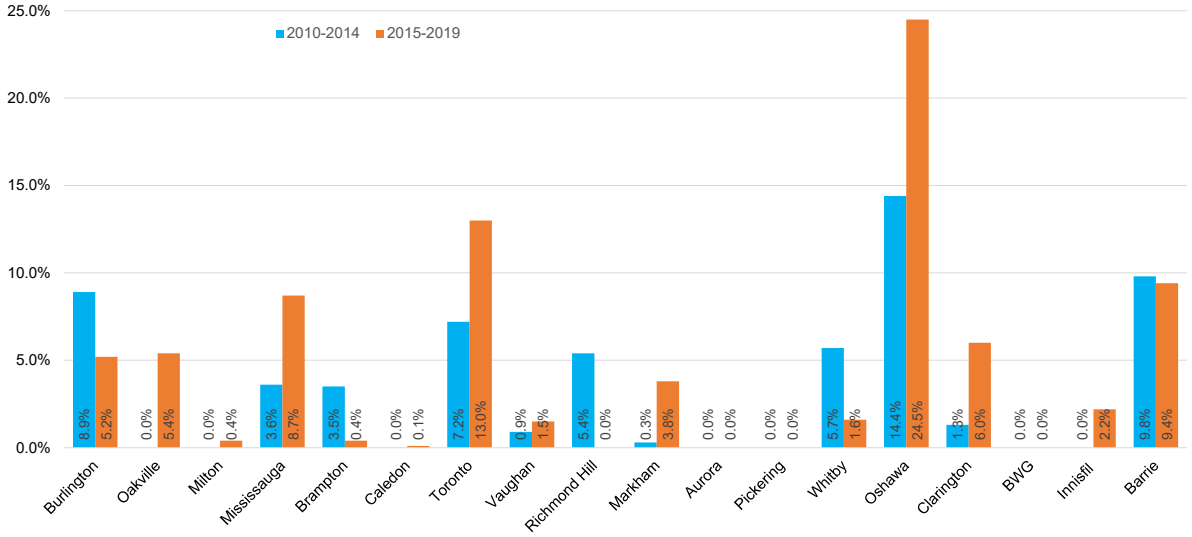


Source: Altus Group based on CMHC Housing Now data

An analysis of the tenure of occupied dwellings shows that despite the number of renter households increasing, there has been a lack of purpose-built rental housing construction in the Greater Toronto Area, with only two municipalities seeing more than 10% of new housing starts be purpose-built rental in the last five years (Oshawa at 24.5% of housing starts, and Toronto at 13.0%).

Figure 14 **Share of Rental Tenure Housing Starts, by Municipality**

2010-2014 vs. 2015-2019



Source: Altus Group based on CMHC Housing Now data

The number of rental housing starts increased by 87% from the 2010-2014 period to the 2015-2019 period. On average, among studied municipalities, rental housing starts comprised just 8.4% of all housing starts over the past five years, although that share was higher than the 4.9% share of rental housing in the prior five-year period.

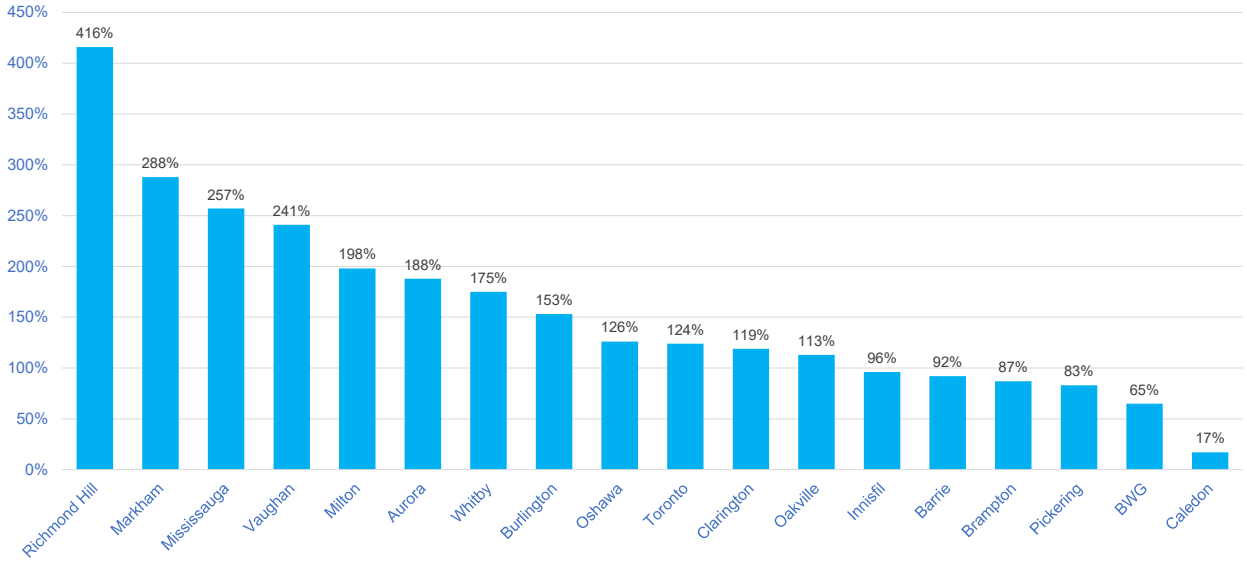
2.4 OTHER MUNICIPAL DATA

2.4.1 Housing Prices

Housing prices in the studied municipalities have increased significantly. Over the 2006-2018 period, based on CMHC data, average prices of absorbed single-detached homes have increased by an average of 158%.[1] Figure 15 shows the changes in absorbed single-detached housing prices over the 2006-2018 period.

[1] The percentage change in absorbed single-detached housing prices should be used with some caution as the data does not control for size of single-detached dwellings in the sample, meaning that the data set could be skewed towards luxury estate lots in one period, but smaller single-detached dwellings in a residential subdivision in another period.

Figure 15 **Change in Absorbed Single-Detached Housing Prices**
2006-2018

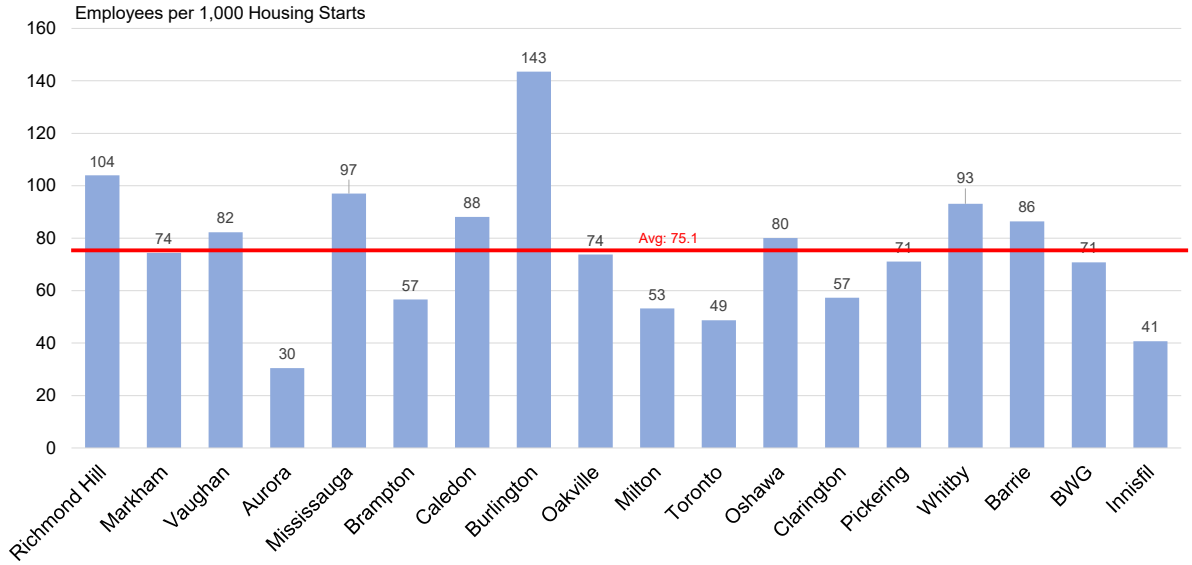


Source: Altus Group based on CMHC Housing Now data

2.5 MUNICIPAL STAFF PER CAPITA

Using available municipal data, an analysis was undertaken to estimate the number of staff (expressed as Full-Time Equivalent or FTE) that municipalities have made available to review development and building permit applications as a significant part of their day-to-day work.

Figure 16 **Municipal Planning Employees per 1,000 Housing Starts**



Note: Housing Starts in denominator are based on annual average over 2015-2019 period
Note: Staff counts include planning and development staff, and staff responsible for building permits
Source: Altus Group based on CMHC Housing Now data, municipal data

To compare municipal staffing across municipalities of varying sizes, we have put all employee counts on a per 1,000 housing starts basis, based on an average of housing starts from the past five years.

Across the studied municipalities there is an average of approximately 75 municipal planning staff per 1,000 housing starts.

For those municipalities with below average staffing levels, the relative outliers are Aurora, Toronto and Innisfil, which each have less than 50 municipal planning staff per 1,000 annual housing starts. This suggests that these municipalities may not have sufficient staffing resources to process applications going forward, particularly in busy years, although it could also suggest that staff at municipalities at the low-end of the scale have to-date been relatively efficient in getting housing applications processed with the resources available. However, in several cases (Aurora, Innisfil, Toronto, Brampton), low staffing levels coincides with longer municipal approval timelines.

Those municipalities with above-average staffing levels are Burlington, Richmond Hill, and Mississauga, each of which have more than 95 planning staff per 1,000 annual housing starts. This suggests these municipalities would have the capacity available to take on a surge in housing development, should one arrive in the coming years.

2.6 SUMMARY OF FINDINGS

Based on our review of demographic and statistical information for the studied municipalities, we have found the following:

- Population is increasing in each municipality studied, but in many cases, this trend is accompanied by falling average household sizes. Both of these add to housing demand – one from net new persons moving into a municipality, and a second from more housing units being needed just to house the existing population;
- In several parts of the GTA (York, Peel and Toronto), there has been a net out-migration of residents from these areas to other parts of Ontario, particularly by adults between aged 25-44 (as well as children aged 0-14), suggesting that persons forming households (particularly families) are leaving to other areas where they're able to better afford and/or more readily find their desired housing product. Halton, Durham and Simcoe have seen net inflow of persons aged 25-44, suggesting that these areas are currently able to meet the demands of younger families for affordable and suitable housing;
- Each of the studied municipalities have seen an increase in the number of renter households, however, purpose-built rental housing construction remains a relatively minor component of overall housing construction;

- There has been a shift in the types of housing being built, with much more emphasis on apartment housing units in most municipalities studied;
- The staffing levels at municipalities are generally consistent when expressed on a 'per 1,000 housing starts' basis, though there are a few outliers (high and low), which may indicate municipalities that are able to respond (or not) to surges in housing development activity going forward. In some cases, low staffing levels coincides with longer municipal approval timelines (Aurora, Innisfil, Brampton, Toronto).

3 MUNICIPAL UTILIZATION OF TOOLS AND PROCESSES

This section of the report reviews the tools that are available to municipalities to assist staff in reviewing development applications, or help applicants navigate the requirements for their development submissions.

3.1 LISTING OF MUNICIPAL TOOLS AND PROCESSES

We have identified numerous features or approaches taken by Ontario municipalities that may positively or negatively influence the ability to get new housing approved and ultimately built in a more expedient fashion than otherwise possible.

Each municipality is scored on whether they have tools or utilize processes that can be deemed beneficial to an efficient planning approvals system or to increase transparency for developers and other stakeholders.

The features reviewed are as follows:

- Online development application submission or building permit application portal;
- The availability of a “development guide”, which shows required studies and components of various planning applications, to ensure applicants understand the requirements of applications and achieve ‘complete application’ status;
- Clear terms of reference for required studies;
- Online status list or tracking system for active development applications, as well as whether mapping of applications is provided, and supporting studies and plans are provided;
- Online zoning, including whether a GIS file and/or a GIS portal available.

The following section of the report presents our measures of how each studied municipality utilizes these tools and features, and what proportion of the 18 municipalities studied are each tool or feature.

3.2 SCORECARD ON PLANNING SYSTEM FEATURES

Based on our review, many tools and processes are already present in most of the 18 municipalities, though no single feature is fully present in more than three-quarters of municipalities.

The most frequently utilized tool is a tracking system for active development applications, while very few municipalities provide clear terms of reference for studies required to be submitted with development applications. A lack of clarity regarding study requirements can result in unnecessary re-submissions and delay the ability to submit a fully complete application.

Figure 17

Feature	% of Municipalities with Feature
Development Guide	67%
Terms of Reference	47%
Development Application Tracking System – Active Applications	75%
Development Application Tracking Database – Historic Applications	42%
Application Tracking – Map	64%
Application Tracking – Supporting Files and Studies	56%
Zoning – GIS file available	22%
Zoning – GIS Portal / Mapping	72%

Another feature explored, but complicated due to COVID-19 adaptation by municipalities is the availability of online submission portals for development applications and/or building permit applications.

Of the studied municipalities only one municipality utilized all eight tools (Toronto) and processes, and some only utilized a few of the tools and processes.

Figure 18

Number of Features (out of 8)	Municipalities with Number of Features
7 or more	Barrie, Brampton, Oakville, Burlington, Toronto
Between 5 and 7	Clarington, Milton, Vaughan
Between 3 and 5	BWG, Pickering, Caledon, Mississauga, Richmond Hill, Aurora
Below 3	Innisfil, Whitby, Oshawa, Markham

3.3 STUDY REQUIREMENTS

Many planning applications require numerous studies, plans and technical reports to be submitted to satisfy municipal staff regarding the nature of the proposal and detailing any potential impacts on the community.

A review of development guides for seven municipalities, including some lower-tier, upper-tier and single-tier municipalities shows the range of potential studies that may be required for a development application – the full list of potential studies is presented in Figure 19.

We have found almost 60 different types of studies, with most applications usually requiring some combination of 20-30 of these studies, depending on the municipality, location of the development and the type of building(s) and uses being proposed.

3.4 CONCLUSIONS

The review of utilization of planning tools and processes has found that some tools that could assist with potentially streamlining municipal processes and commenting periods, or would improve the quality of submissions from applicants, such as online submission portals and detailed terms of reference for technical studies required for review of development applications are often not used in many of the municipalities studied.

A review of the list of studies that may be required by municipalities shows that some development applications may be burdened with a vast array of study requirements - in some cases potentially in the range of 20-30 studies for a single project, depending on the municipality, application type, and location of development.

The required quantity and variety of technical studies, even if necessary to ensure that developments are in the public interest, results in significant costs to retain experts necessary to complete the studies and adds significant time for the studies to be completed, and then reviewed by municipal staff. The greater the number of studies also likely increases the likelihood of revisions and resubmissions, adding more time to the approvals process.

Figure 19

Studies and Technical Reports / Plans That May Be Required in Select Municipalities

	Municipality						
	Toronto	Durham	Clarington	Halton	Oakville	Simcoe	Barrie
Affordable Housing Report						X	X
Agricultural Impact/ Assessment		X			X	X	X
Air Quality Study					X		
Arborist Tree Preservation Report	X			X	X		X
Archeological Assessment	X		X	X	X	X	X
Block Master Plan			X				
Community Services and Facilities Study	X						
Contaminated Site Assessment	X	X					
Contamination Management Plan		X					
Earth Science Heritage Evaluatio			X				
Electromagnetic Field Management Plan / Study	X						
Energy Strategy	X						X
Enviromental Site Assessment			X	X		X	X
Environmental evaluation study							X
Environmental Impact Study	X	X	X	X	X	X	X
Erosion or Natural Hazard Assessment		X		X			X
Financial Impact Study		X	X	X	X		X
Fire Access Plan							
Fisheries Impact/Marina Impact Study						X	X
Floodplain Report			X			X	
Geotechnical Study / Soils Report	X	X	X	X	X	X	
Healthy Communities				X			
Heritage Impact Report	X	X	X		X	X	X
Housing Issues Report	X						
Hydrogeology / Groundw ater Assessment		X	X	X	X	X	X
Landfill Impact Study						X	
Landform Conservation Plan			X				
Landscaping Plan					X		
Lighting Plan			X			X	X
Linkage Assessment			X				
Loading Study	X						
Marine archaeological assessment							X
Market Impact Study		X	X				X
Natural Heritage Impact Study	X		X			X	
Noise Impact Study	X		X	X	X	X	X
Odour/Dust/Nuisance Imapct Report		X	X	X		X	X
Parking Study	X						
Parkland Impact Study / Recreation Needs			X				
Planning Rationale / Justification	X	X	X	X	X	X	X
Public Consultation Strategy Report	X						
Rental Housing Conversion Report		X					
Servicing Report	X	X	X	X	X	X	X
Slope Stability Report			X	X			X
Stormw ater Management / Drainage Report	X	X	X		X	X	
Streetscape Plan					X		
Sun/Shadow Study	X						X
Sustainability Report			X				
Topographical Survey	X						
Traffic Operations Assessment	X		X				
Transportation Impact Study	X	X	X	X	X	X	X
Urban Design Report	X		X			X	X
Vegetation Inventory							
Vibration Study	X	X	X	X	X	X	X
Water conservation plan						X	
Water Quality Study							X
Watershed Study		X					
Wellhead Risk Assessment Report						X	X
Wind Study	X					X	X

Note: Some studies show n as not being required may actually be required w ithin other larger studies show n, depending on the specific terms of reference for each study. In most instances, the studies listed may only be required for some application types, or only in some circumstances.

Source: Altus Group Economic Consulting based on Municipal Offical Plans

4 ESTIMATES OF MUNICIPAL APPROVAL AND PERMIT TIMELINES

Lengthy timelines for development application approvals from municipalities are a common complaint of development industry stakeholders. This section reviews findings from exhaustive research into timelines for recently approved applications for most municipalities studied in this report.

4.1 APPROACH

Altus Group endeavoured to measure typical approval timelines for development applications in various municipalities across the Greater Toronto Area.

The approval timelines were measured from the date a municipality provided acknowledgment that an application was deemed 'complete'[2] to when a planning approval was provided by the municipality. The nature of a 'planning approval' can take many forms, including approvals provided by a municipality for official plan amendments, zoning by-law amendments, draft plan of subdivision, draft plan of condominium, site plan approval, or a combination thereof.

Although contingent on the availability of data provided by municipalities, it was possible to undertake a few types of analyses of approval timelines for different applications types for municipalities in the study. However, not every municipality made available all necessary information to do the analysis for all application types, and there are some municipalities where certain types of applications are relatively rare (i.e., subdivision applications in the City of Toronto). Only in instances where it was possible to obtain robust samples for particular application types are findings shared. An overview of the sources for data informing our analysis are summarized in the following table.

It should be noted that while the analysis focuses on the time between complete application and municipal approval, it does not account for the significant period of time that an application may take to achieve a 'complete application' status (i.e. "pre-submission"), nor the period of time from development approval to building permit approval. There are also significant timelines associated with the process of getting vacant land designated for urban uses (e.g. greenfield development) – often this process can take several years, and in some cases can take upwards of 10 or more years.

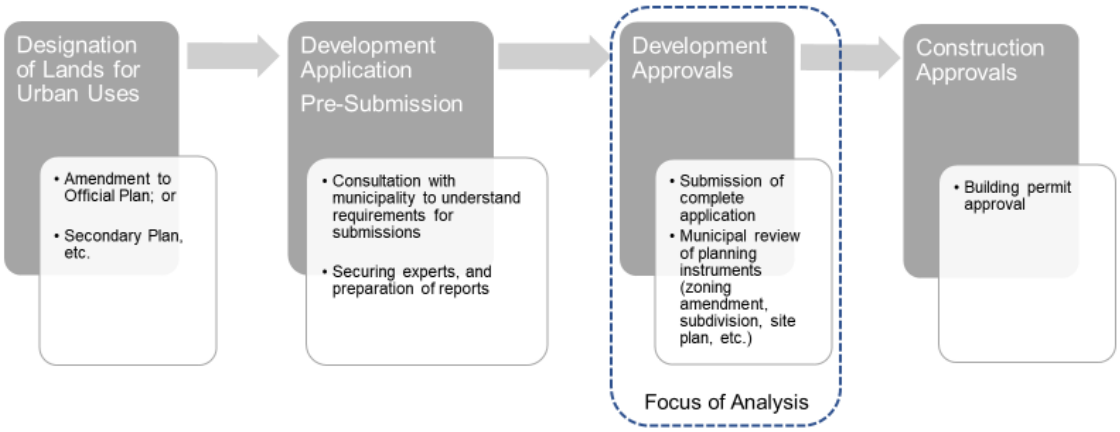
[2] Such as, direct affirmations of an application's complete status date or the date a notice of a public meeting was provided.

Figure 20

Data Source	Description
Municipal Application Status Lists	Some municipalities provide comprehensive lists of recently approved applications. Often, data can be extracted from the published records about date of complete application, date of approval(s), etc.
Council / Committee Agendas, Minutes, Staff Reports	Each municipality studied makes some amount of information regarding development approvals through agendas, minutes, and associated documents and reports available through Council / Committee meeting portals. Council / committee agendas were carefully reviewed to tabulate development approvals, with searches then undertaken for sources with a recorded date of complete application – often this information is contained within the staff report recommending approval.
Open Data Portals	Some municipalities make datasets available with recently approved development applications, which often include data regarding the date of complete application, and approval (and for which planning instruments planning approvals were obtained).

The diagram below depicts the major elements of the land development and building approval process and highlights the element that this analysis of municipal timelines focuses on.

Figure 21



4.2 FINDINGS – DEVELOPMENT APPROVAL TIMELINES

4.2.1 Overview of Methodology

The analysis summarized below is based on a significant amount of work to collect a robust sample as possible. Nearly 1,000 development applications that were approved by a municipality were reviewed and recorded in the process of data collection. However, it should be noted that this analysis does not include timelines associated with the following:

- Developments that were refused by the municipality and may have been subject to an appeals process (in this instance, likely appealed by the

applicant). Where those applications are ultimately approved by the Local Planning Appeals Tribunal (LPAT), this adds considerable time to the approvals process, but the timelines associated with these developments are not included in our analysis. The approval periods for applications that were subject to LPAT appeal processes are left out as the additional time required to obtain approval from an LPAT process is not necessarily reflective of issues with municipal processes, and timelines for applications subject to the LPAT process can be lengthy due to productive reasons such as time spent in settlement discussions, or other reasons that are not in the control of the municipality, such as LPAT case backlogs that delays the scheduling of hearings;

- Appeal periods related to developments that were approved by the municipality, but appealed by other stakeholders to LPAT, which would add considerable time onto the approval period – this additional time is not accounted for in this study;
- Applications that are obvious outliers - records where the timelines significantly exceeded the average of most other data points in the sample. Some application approvals may, for example, involve lands that have been sold to a new owner who has decided to make modifications to a pre-existing submission, however as these instances are not necessarily the fault of the municipality, they have not been included.

The data sample includes the most current application approvals for each municipality. However, given the scale of development in some municipalities, it was necessary to collect information for applications that received an approval as far back as 2015 in order to reach a robust sample size. Therefore, the 'average' timelines presented may not necessarily be reflective of a typical timeline in 2019/2020 or capture impacts of more recent improvements that municipalities may have made in the last 12-24 months.

The data averages presented in Figure 22 looks at how long, on average, a development application took for the municipality to approve but does not distinguish between applications that had multiple concurrent submissions and applications that were submitted as consecutive submissions (one after another), or submissions that required only one application. The timelines for developments requiring only 'single' approval versus 'multiple' approvals is analyzed separately and presented in a later section of this report.

4.2.2 Findings

The analysis shows significant variations in the approval timelines of municipalities. Generally, the more populous and urban municipalities (i.e. Mississauga, Brampton, and Toronto) had longer timelines, while more suburban or exurban municipalities had shorter timelines.

Only four municipalities, Oshawa, Innisfil, Burlington and Oakville had average approval timelines below 12 months, while another nine municipalities had averages that fell within a range from 12 to 18 months. In four municipalities, the average timeline for municipal approvals ranges from 18 to 24 months. For one municipality (Milton), there was not enough available data found on municipal approvals to include in the report.

Figure 22

Average Approval Timelines by Application Type, by Municipality

Municipality	Official Plan Amendment	Zoning By-law Amendment	Plan of Subdivision	Plan of Condominium	Site Plan	Average
Oshawa (n=29)	**	9 months	9 months	8 months	**	9 months
Innisfil (n=24)	9 months	9 months	10 months	**	**	9 months
Burlington (n=26)	13 months	11 months	7 months	**	**	11 months
Oakville (n=96)	12 months	12 months	11 months	8 months	15 months	11 months
Barrie (n=30)	10 months	11 months	12 months	**	18 months	12 months
Markham (n=33)	11 months	14 months	9 months	**	**	13 months
Whitby (n=29)	10 months	13 months	15 months	11 months	**	13 months
Vaughan (n=78)	14 months	15 months	11 months	8 months	12 months	13 months
Clarington (n=31)	**	12 months	13 months	**	**	13 months
Pickering (n=37)	16 months	13 months	13 months	13 months	**	14 months
Richmond Hill (n=26)	**	18 months	18 months	14 months	16 months	16 months
Aurora (n=23)	**	19 months	25 months	8 months	18 months	17 months
Mississauga (n=18)	18 months	17 months	**	**	**	18 months
Brampton (n=85)	26 months	19 months	19 months	**	**	20 months
Toronto (n=76)	32 months	25 months	**	8 months	30 months	21 months
Caledon (n=18)	**	23 months	23 months	**	**	23 months
BWG (n=23)	**	21 months	25 months	**	**	24 months
Overall Range	8-37 months	9-25 months	7-25 months	8-14 months	12-30 months	9-24 months
Overall Average	16 months	15 months	15 months	9 months	18 months	15 months

** denotes where either data was not available, or the sample size was too small to be statistically robust

The analysis by application types shows that applications with official plan amendments (OPAs) take the longest to be approved with municipal averages ranging from 8 to 37 months, while the quickest type of application to gain approval on average is plan of condominium, with municipal averages ranging from 8 to 14 months.

The findings relating to approvals timelines may not necessarily be consistent with the findings on the availability of tools or features of planning systems in the studied municipalities or staffing levels in the municipalities. Even with full usage of the identified tools and features, or large amounts of staff on-hand, an approvals process can still be slow without the right deployment of tools or features, or the efficient allocation of staff resources.

The results regarding average timelines for approved applications in each municipality should be used with some caution as the complexity of development applications was not controlled for, given the subjectivity of any evaluation, measurement or adjustment for complicating factors adding to an application's complexity. However, it is understood that complexity can be elevated by variables such as the scale of development proposals (land area, number of units, height, etc.), environmental issues, concerns about community impact, political issues, etc. These complicating factors will vary from one application to the next, and may be especially prevalent in certain municipalities studied.

4.3 ADDITIONAL INSIGHTS

4.3.1 High-Density vs. Low-Density

For analytical purposes, the development applications within the collected data set were broadly categorized as either 'low-density' projects, or 'high-density' projects. Low-density projects were generally defined as being applications that were predominantly oriented towards ground-related housing (singles, semis, townhouses), while high-density projects were defined to be development applications that predominantly include multi-family homes such as apartments and condominium high-rises.

It was found that there was no significant difference in the average timelines for the two types of development applications, with low-density applications taking an average of 14.4 months to be approved, and high-density applications taking an average of 14.3 months. However, when averages were compared for specific municipalities, some disparities in averages between the two types are evident (see Figure 23)

Figure 23

Averages for Low-Density significantly less than High-Density	Averages for High-Density significantly less than Low-Density
Toronto (low-density 11 months faster than high-density)	**Richmond Hill** (9 months faster for high-density than low-density)
Burlington (low-density 8 months faster than high-density)	**Vaughan** (3 months faster for high-density than low-density)
Brampton (low-density 4 months faster than high-density)	**Whitby** (3 months faster for high-density than low-density)

4.3.2 Multiple Applications vs. Lone Applications

Municipalities often promote the submission of multiple applications at the same time (e.g. an official plan amendment with a zoning by-law amendment) with the notion that it can save both time and fees for the developer. The benefit to municipalities is that it in theory, concurrent review of applications more efficiently uses staff resources because it allows staff to save time reviewing aspects of a development proposal that may overlap between different application types.

While potential for time savings for developers can provide significant benefits, there are also risks to developers. First, because staff are dealing with more expansive aspects of a development proposal all at once, their recommendation report to council may take longer to submit, delaying final approval. Second, a major issue delaying review or approval of one application may cause other applications to be delayed.

The chart below (Figure 24) shows the difference in average approval timelines for single applications versus multiple applications reviewed concurrently. While lone applications take generally less time individually by application type, should a developer sequentially go through the application process gaining one approval only after others have been received, it would take significantly longer than a bundle of application submitted all at once. The data obtained and reviewed in this exercise shows that when there are multiple applications submitted, it generally takes just 2 to 3 months longer for the bundle of applications to be approved than just an individual application.

Figure 24

Application Type	Single Application	Multiple / Concurrent Application
Official Plan Amendment	**	16 months
Zoning By-law Amendment	13 months	16 months
Plan of Subdivision	12 months	15 months
Plan of Condominium	8 months	10 months
Site Plan	16 months	23 months
Average	13 months	16 months

Overall, applications submitted alone made up about one-third of the total sample, while applications that were concurrently submitted with others made up the remaining two-thirds. This information suggestions that a large majority of applications are already being bundled together with others, however, there is still a significant minority that are not, and potentially could be bundled together.

If there is any possibility for the avoidance of certain planning applications, and consolidation of planning applications into one type of submission, it appears that there would be a benefit to the applicant of reduced timelines.

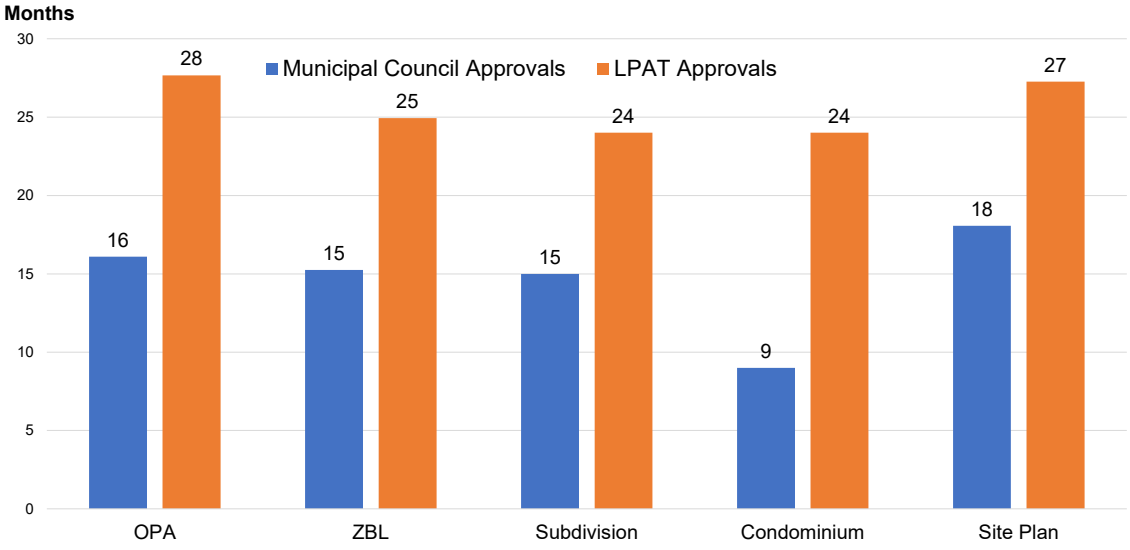
4.3.3 Approval by Municipal Council vs. Local Planning Appeals Tribunal

While applications that were approved by the LPAT were not included in the main dataset, some information was collected that provided a sub-sample that could be used to analyze and contrast with average timelines for municipal approvals. While the sub-sample was sufficiently large for aggregate comparison purposes (with 100 records), it was not large enough to allow for analysis by any single municipality.

On average, applications approved by the LPAT took on average roughly twice as long to gain approval as those approved by a municipality, with the overall approval period for applications approved by LPAT inclusive of the time the applications spent in the municipal review process, and the time spent getting through the LPAT process.

Figure 25

Approval Timelines by Source of Approval



Source: Altus Group based on various municipal and LPAT records

Having to gain approval through the LPAT and that taking roughly double the amount of time to gain municipal approval, if approval is obtained at all, illustrates a risk associated with the current appeals system – getting an approval via an appeal adds significant cost in terms of the additional time required to gain approval, over and above the expense of the hearing itself with additional costs for the legal counsel and experts required to navigate the LPAT process.

4.4 CONCLUSIONS

The analysis of average development approval timelines finds that the average period of time to get a development approval from a municipal council in the Greater Toronto Area ranges from 9 to 24 months, however, there is significant variation between the municipalities studied:

- The more urbanized municipalities have application approval timeline averages around 20 months, while suburban and exurban municipalities generally take significantly less time to provide approvals. Some of this variation can likely explained by the generally higher level of project complexity for projects submitted to more urban municipalities, as well as, and the volume of submissions in those municipalities;
- Bundled applications only take 20% to 30% longer to approve than submissions requiring only one type of application, suggesting that there are significant economies of scale and efficiencies for bundled applications, providing benefits to both municipality and applicant;

- While the success rate at the LPAT was not examined as part of this study, gaining a development approval through an LPAT appeal can take, on average roughly twice as long as an approval from a municipality. Gaining approval through the LPAT can be incredibly costly and time consuming.

5 MUNICIPAL CHARGES ON NEW HOUSING

This section gives further detail on the various municipal charges levied on newly built homes, and charged to developers, home builders and/or purchasers of newly built homes. The charges reviewed include those levied by lower-tier or upper-tier municipalities and school boards.

5.1 DEVELOPMENT CHARGES

5.1.1 Municipal Development Charges

The Ontario *Development Charges Act* grants authority to municipalities to enact a development charges by-law to impose a charge against land to be developed where the development will increase the need for municipal services, thus offsetting capital costs.

Municipal development charges collect funds for services deemed as being eligible in the *Development Charges Act*, such as Parks & Recreation, Libraries, Fire Services, Police Services, Water, Sewer, Roads, Transit, etc. Where there is both an upper-tier and lower-tier municipality, the services included in each respective municipality's DC by-law are based on which tier is the provider of each service.

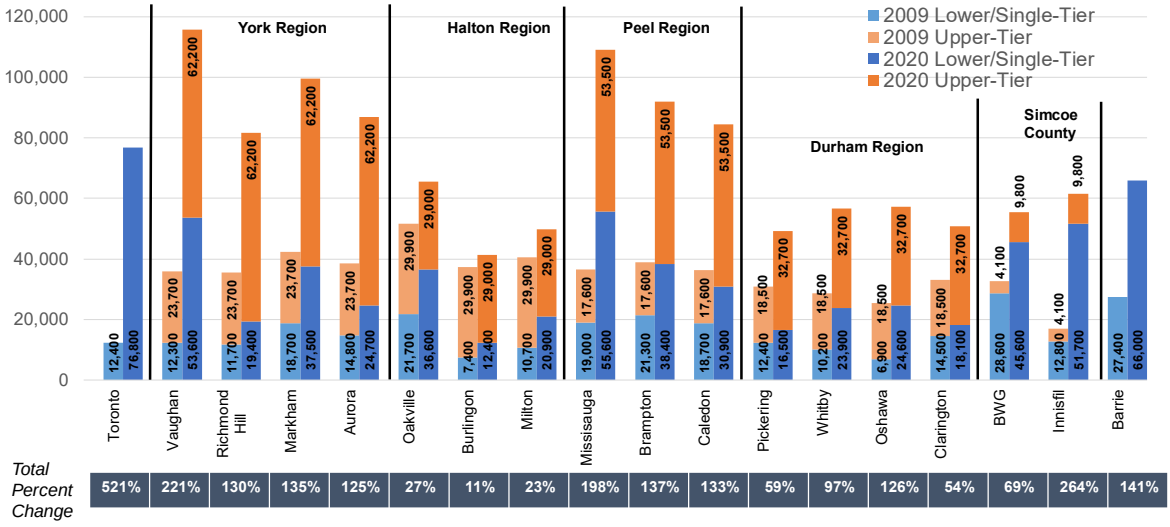
Each of the lower-tier/single-tier municipalities reviewed in this report imposes development charges for a variety of services. As required under the *Development Charges Act*, development charge by-laws are to be reviewed at least every five years, and in the interim periods between DC by-law reviews see DC rates indexed either annually or semi-annually, depending on the approach adopted by each municipality.

Figure 26 shows the significant increases to development charge rates since the 2009 in the studied municipalities, on a per single-detached unit basis. Since 2009, DC rates have increased by an average of 137% in the municipalities surveyed. Toronto, Innisfil, Vaughan, and Mississauga have had DC rate increases at or greater than 200% since 2009.

Figure 26

Municipal Development Charges from 2009-2020, Selected Ontario Municipalities

Dollars per Single-Detached Unit



Source: Altus Group Economic Consulting based on Municipal DC By-laws

5.1.2 GO Transit Development Charges

Development charges are also levied to collect funds for growth-related projects associated with the GO Transit system. Most regions in the Greater Toronto Area have been allocated a share of the projected growth-related capital costs associated with the GO Transit system, with the municipal, provincial and federal governments each in total funding one-third shares of the capital costs.

The GO Transit development charge was originally approved for a two-year period, with the by-laws expiring December 31, 2003. Since then, the GO Transit development charges have been updated regularly to fund a rolling ten-year budget.

5.1.3 Area-Specific Development Charges

Six of the municipalities reviewed in this report impose area-specific development charges ("ASDC"). We have therefore made assumptions regarding the area that the hypothetical developments would fall within:

- **Halton Region** – Halton Region imposes a higher DC for homes built in the greenfield area than those built within the Region's built boundary. For this analysis we have assumed that the low-rise scenario is within the greenfield area, and that the high-rise development scenario is located within the built boundary area;
- **City of Barrie** – The City of Barrie imposes different DC rates for the parts of the City within the former City boundaries, and for the Hewitt and

Salem Secondary Plan areas on the lands annexed from the Town of Innisfil. For this analysis, we have assumed that both the low-rise and high-rise development are within the former City boundaries;

- **Town of Innisfil** - The Town of Innisfil imposes numerous ASDCs applicable to different parts of the Town. For this analysis we have assumed that the low-rise development is in Innisfil North and the high-rise project is in Innisfil Central;
- **City of Markham** – The City of Markham imposes additional area-specific DC rates for homes built in certain areas within the City and levies them on a per hectare basis. For this analysis we have assumed that the development is located outside the areas subject to ASDCs; and
- **Town of Richmond Hill** – The Town of Richmond Hill imposes additional ASDCs on a per net hectare basis in selected greenfield areas in the Town, over and above the Town-wide charges. For the low-rise scenario included in our analysis of government charges, we have taken the average of these greenfield ASDCs and added that onto the Town-wide development charges.

5.2 EDUCATION DEVELOPMENT CHARGES

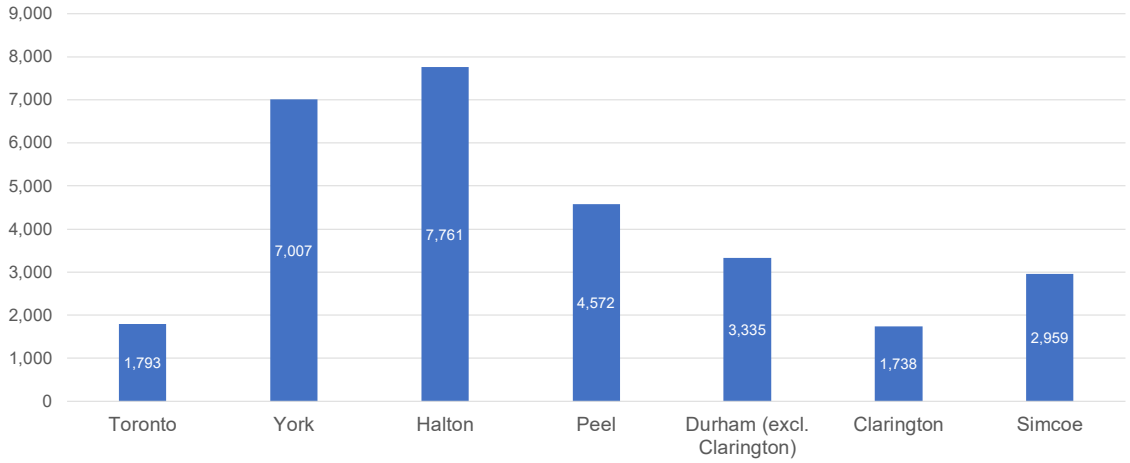
In Ontario, education development charges (EDC's) are collected by local municipalities on behalf of local school boards that qualify to impose such charges under the *Education Act* and associated regulations. EDC's are used by school boards to fund the acquisition of school sites and related costs (site preparation, legal costs, etc.) to accommodate net new growth-related pupils. EDC's are usually charged by both English-language public and separate school boards and are usually levied on both residential and non-residential growth. Funding for school building construction is provided by the Province on an as-needed basis stemming from requests for funding submitted by local school boards.

EDC's on residential development are imposed solely on a per unit basis, meaning that single-detached units are charged the same rate as townhouse and apartment units. The *Education Act* and associated regulations enable school boards to impose these charges on a differentiated basis (i.e., higher rates for single-detached units, lower for apartment units), but to-date, this approach has not been utilized.

Figure 27

Education Development Charges by Jurisdiction

Dollars per Unit



Note: Part of "Peel" EDC applies to part of Dufferin County, part of "Simcoe" EDC applies to part of Muskoka, and the "Durham" rates are not applicable in Clarington, which is under jurisdiction of Kawartha Pine Ridge DSB and Peterborough Victoria Northumberland and Clarington Catholic DSB

Source: Altus Group Economic Consulting based on various EDC By-laws

5.3 PLANNING & APPROVAL FEES

There are various fees and charges associated with the municipal approval for a development, several fees for the permits required for the construction of the building(s), and engineering fees and permits for the infrastructure works associated with a development.

The modelling undertaken groups these fees into three main categories outlined in the subsections below, but in many municipalities, there is no clear delineation between the departments that review plans, approve plans, and/or issue permits, meaning that in some cases, engineering review fees may be covered within the costs recovered through planning review fees.

5.3.1 Planning Review Fees

For this analysis, it is assumed that the low-rise scenario would require both lower- and upper-tier official plan amendments, a zoning by-law amendment, and plan of subdivision approval. It is assumed that the high-rise development scenario would require an official plan amendment, a zoning by-law amendment, as well as plan of condominium and site plan approval.

Often there is considerable overlap between the studies and reports required for different planning applications. To acknowledge this, some municipalities provide reduced or discounted costs for joint applications where more than one planning instrument is being amended.

In imposing 'per unit' fees for planning review fees, some municipalities acknowledge that certain 'economies of scale' exist for larger applications,

and so levy discounted per unit rates beyond certain unit thresholds, a feature sometimes referred to as a 'declining' fee rate. This approach to structuring the planning review fees is based on the notion that there are certain fixed costs to reviewing planning applications whether the application has 10 units or 100 units.

Some municipalities treat the diminishing marginal costs for larger applications through both a declining fee rate, but also a 'cap' on planning fees. For example, the City of Brampton (as of December 2019) caps fees for development applications requiring some combination of zoning by-law amendment, official plan amendment or subdivision approval at $359,220 and caps fees for site plan approvals at $85,219.

5.3.2 Building Permit Fees

Each of the lower-tier and single-tier municipalities being reviewed charge building permit fees for the construction of residential buildings, charged on a per square metre basis.

5.3.3 Engineering and Servicing Fees

Each lower-tier and single-tier municipality reviewed charges a variety of engineering and service fees for the development, review, inspection, connection and/or assumption of a development's water, sanitary sewer and storm sewer services. The various engineering and servicing related fees may include servicing fees, subdivision agreement and assumption fees, and engineering inspection fees, which are typically charged as a percentage of costs of the engineering works to be done.

5.4 PARKLAND DEDICATION / CASH-IN-LIEU OF PARKLAND

Although Bill 108 (passed June 2019) was intended to alter how municipalities collected funds for parkland acquisition, the recently passed Bill 197 (assented July 2020) essentially restores most of the current parkland dedication / cash-in-lieu of parkland system.

Currently municipalities acquire parkland and other forms of open space through parkland dedication requirements imposed on new developments. Alternatively, a developer is able to provide "cash-in-lieu" ("CIL") of parkland dedication to a municipality.

The *Ontario Planning Act* says that as a condition of development or redevelopment of land, that land in an amount not exceeding 5% of the land to be conveyed to the municipality for park or other public recreational purposes. Alternatively, for residential developments, the land conveyed to the municipality may also be provided at a rate of 1 hectare per 300 dwelling units.

The *Ontario Planning Act* also says that in lieu of providing the land for parkland to the municipality, the developer may instead provide a payment to the municipality in the amount of the value of the land to be conveyed, at a rate not to exceed 1 hectare per 500 dwelling units. The value of the land is to be determined as of the day before approval of the draft plan of subdivision.

The statutory parkland rates are used in each Ontario municipality reviewed in this report, except as follows:

- **City of Toronto**: The City has an alternative parkland dedication rate of 2% of land area, or 0.4 hectares per 300 units. In Toronto, cash-in-lieu of dedication payments are also capped based on the size of the development site and the value of the site:
    - For smaller sites (less than 1 hectare), this cap is 10% of the value of the site;
    - For 1-to-5-hectare sites, the value of the payment cannot exceed 15% of the value of the site;
    - For larger sites (greater than 5 hectares) this cap is 20% of the value of the site.
- **City of Mississauga**: The City of Mississauga follows the statutory parkland rates, except for medium- and high-density development which has a fixed rate of $8,970 per unit;
- **City of Vaughan**: The City of Vaughan's cash-in-lieu of parkland contributions are calculated at a rate of 1 hectare per 500 units, except for high density development which has a rate of $8,500 per unit;
- **Town of Richmond Hill**: The Town of Richmond Hill requires landowners to convey land at the greater of 5% of the land within the development application, or the lesser of:
    - 1 hectare of land of land per 300 dwelling units; or
    - 1 hectare of land for each 730 persons to be housed.

5.5 SECTION 37

The former Section 37 of the *Ontario Planning Act* (as it was prior to the passage of Bill 108) allowed for increases in permitted height and/or density through the zoning by-law in return for community benefits, provided that Official Plan policies are in place. These contributions are typically directed to community infrastructure needs arising from the expected surplus in housing units/people being accommodated in a development relative to the original plans.

While Section 37 is used in some 905 municipalities, it is most frequently utilized in the City of Toronto. The *City of Toronto Official Plan* sets out

several community benefits that may be provided in return for increased height and/or density, including parkland/park improvements, streetscape improvements, public art, childcare facilities, etc.

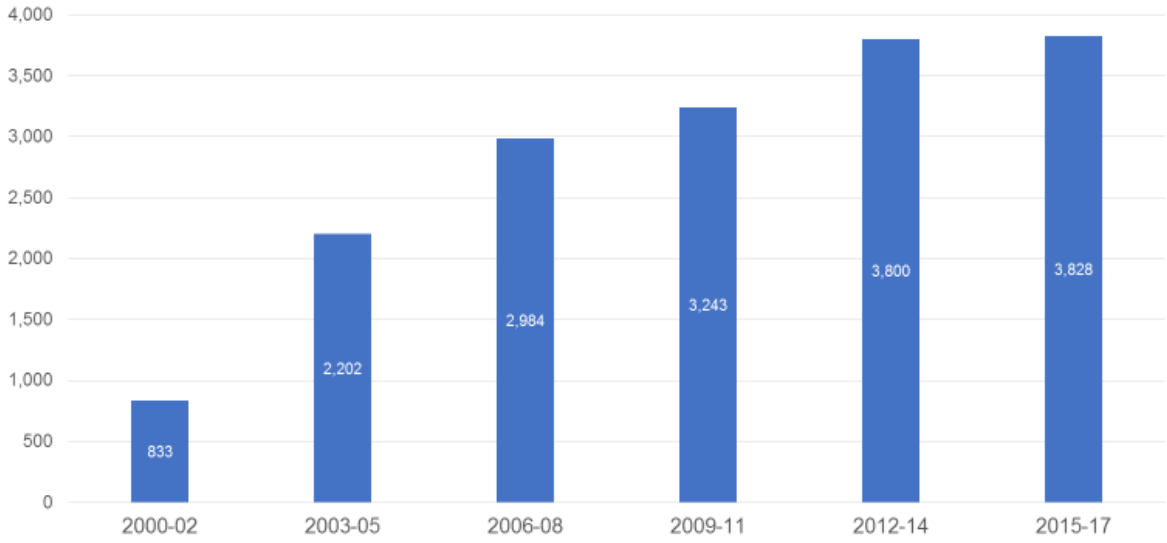
While Section 37 contributions are often provided by private developers when developing in Toronto, there is no publicly available formula or method for how these are calculated and/or arrived at. These section 37 contributions can also be provided in the form of cash contributions, or in-kind contributions.

Based on our review of various zoning by-laws in the City, the cash contributions agreed to by developers and the City can vary significantly from one development to the next – in some cases less than $1,000 per unit, and in others in excess of $15,000 per unit, and up to over $22,000 per unit in some select instances. The average section 37 cash contribution has been steadily increasing since the year 2000, and over the 2015-2017 period, the average section 37 cash contribution amounted to approximately $3,800 per unit, on average. The City also regularly secures non-cash contributions, such as rental housing replacement units, public art, playgrounds, daycare spaces, recreation facilities, etc., which are not accounted for in the average cash contributions depicted in Figure 28.

Figure 28

Average Section 37 Cash Contributions, City of Toronto

Dollars per Unit



Source: Altus Group Economic Consulting based on various City of Toronto Zoning By-law Amendments, 2000-2017

The former Section 37 density bonusing system, under Bill 108 and Bill 197 will be effectively replaced with a Community Benefits Charge ("CBC"), which would see a percentage of land value payable for developments with both 10 or more residential units that are also 5 or more storeys in height. As of the time of writing this report, the prescribed CBC percentage has not been set.

5.6 LAND TRANSFER TAXES

Land transfer taxes ("LTT") are levied by the Province of Ontario, and so those charges are not included in our modelling of charges imposed by municipalities. However, the City of Toronto, under authority granted to it by the *City of Toronto Act*, does levy its own municipal land transfer tax. The Toronto Municipal Land Transfer Tax is imposed on the value of property being transferred from a seller to a buyer, at rates of:

- Value up to $55,000 – 0.5%;
- Value from $55,000 to $250,000 – 1.0%;
- Value from $250,000 to $400,000 – 1.5%;
- Value from $400,000 to $2,000,000 – 2.0%; and
- Value over $2,000,000 – 2.5%.

No other municipality among those studied in this report levies a municipal land transfer tax.

5.7 OTHER GOVERNMENT CHARGES NOT INCLUDED IN THIS REPORT

Government charges levied on new homes by Provincial or the Federal government are not included in this report, as the focus of the analysis is on charges and fees levied by municipal governments. Therefore, charges such as the provincial land transfer tax, sales taxes (provincial and federal), and CMHC mortgage insurance are not included in this study.

However, unlike municipal charges, which are typically incurred by the developer (and ultimately passed onto new homebuyers through prices), the charges levied or required by upper-levels of government are typically incurred directly by homebuyers, and so also have a significant impact on the affordability of housing in Canada.

5.8 EMERGING TRENDS

5.8.1 Bill 108 and Bill 197

Bill 108, passed in June 2019, eliminated the former Section 37 density bonusing provisions of the *Planning Act* and combined with Bill 197 (introduced in July 2020) alter how development charges are collected in municipalities across Ontario. The other two substantial changes to government charges are first, the removal of the 10% statutory deduction to certain 'soft' services such as indoor recreation, libraries, etc., which will cause DC rates to increase modestly. The legislated changes to the calculation of DCs have not been accounted for in DC by-laws as of the time of writing this report.

Second, the two bills would see the introduction of a Community Benefits Charge (CBCs) which would allow municipality to fund capital costs on development with 5-or-more storeys and 10-or-more dwelling units, as a percentage of land value the day before building permit issuance. However, as the province has not yet produced a finalized set of CBC regulations, which will include the prescribed 'cap' on what municipalities can impose as CBCs, the costs associated with CBCs are not incorporated into the modelling summarized by this report.

Bill 108 also included several changes to the *Development Charges Act* as it pertains to the timing of calculation of DCs payable and the period in which DCs are paid.

- For the development of rental housing, institutional, industrial, commercial and non-profit housing, DCs are set either at the time of site plan application or zoning by-law amendment application, rather than at the time of building permit issuance.
- For these same land uses, DCs are now payable in six equal annual installments, with the first payment due at the issuance of an occupancy permit, or the date the building is first occupied.
- The calculation and timing of payment of DCs for condominium and freehold residential homes remains unchanged in Bill 108.

5.9 QUANTIFICATION OF MUNICIPAL CHARGES AND FEES

This subsection of the report aims to provide a high-level overview of the charges levied by municipal governments on new development and attempts to quantify the costs these charges and fees payable by developers, home builders, and ultimately, home buyers.

5.9.1 Scenarios

To model and estimate the charges and fees imposed by the municipalities studied in this report, we have devised two development scenarios – one 'low-rise' consisting of a mix of single-detached and townhouses, and one 'high-rise' consisting of a condominium apartment building.

Figure 29

Feature	Low-Rise Scenario	High-Rise Scenario
Unit Types	75 single-detached, 50 townhouses	125 condominium apartment units (75 2+bedrooms, 50 bachelor and 1-bedroom)
Land Area	6.91 hectares (17.06 acres)	0.52 hectares (1.29 acres)
Unit Sizes	Single-detached: 2,500 sf Townhouses: 1,800 sf	Large apartments: 900 sf Small apartments: 650 sf

5.9.2 Findings

5.9.2.1 Low-Rise Scenario

Our modelling of charges imposed on low-rise development was done on all 18 municipalities included in the study. On average, for the municipalities studied, the charges imposed by municipalities amount to $93,700 per unit, or 9.7% of the housing price.

Figure 30

Municipal Charges per Unit, Ranked, Low-Rise Scenario

Rank	Municipality	Upper-Tier	Charges per Unit ($)
1	Vaughan	York	148,083
2	Markham	York	138,154
3	Toronto	n.a.	134,653
4	Richmond Hill	York	124,723
5	Aurora	York	116,232
6	Mississauga	Peel	108,976
7	Brampton	Peel	103,019
8	Caledon	Peel	96,647
9	Oakville	Halton	88,224
10	Whitby	Durham	75,607
11	Pickering	Durham	74,923
12	Barrie	Simcoe	73,997
13	Oshaw a	Durham	72,827
14	Innisfil	Simcoe	72,149
15	Milton	Halton	71,644
16	Burlington	Halton	66,826
17	BWG	Simcoe	65,984
18	Clarington	Durham	54,258

The results vary significantly by municipality – from $148,100 per unit in Vaughan to $54,300 in Clarington. Seven of the eight municipalities with the highest municipal charges on low-rise development are in York or Peel Regions, owing to the significant amount of development charges imposed on new housing developments by those regional municipalities.

In particular, the municipal charges in York Region municipalities may be driven by infrastructure costs for water and wastewater owing to the Region being landlocked, which increases costs associated with finding solutions to water and sanitary infrastructure needs.

When the municipal charges are expressed as a % of housing prices[3], the charges range from 5.6% in Burlington to 14.5% in Vaughan.

Figure 31

Municipal Charges as % of Housing Price Ranked, Low-Rise Scenario

Rank	Municipality	Upper-Tier	Charges as % of Housing Price
1	Vaughan	York	14.5%
2	Brampton	Peel	11.8%
3	Markham	York	11.6%
4	Toronto	n.a.	10.7%
5	Innisfil	Simcoe	10.6%
6	Aurora	York	10.3%
7	Caledon	Peel	10.2%
8	Richmond Hill	York	10.0%
9	Barrie	Simcoe	9.8%
10	Oshawa	Durham	9.7%
11	Mississauga	Peel	9.5%
12	Whitby	Durham	9.4%
13	BWG	Simcoe	9.0%
14	Oakville	Halton	8.5%
15	Pickering	Durham	8.4%
16	Milton	Halton	8.3%
17	Clarington	Durham	7.1%
18	Burlington	Halton	5.6%

The most significant charge in almost all the surveyed municipalities is the development charge, typically amounting to 75% of the municipal charges

[3] The 'housing price' used to contextualize municipal charges is a weighted average of assumed housing prices for single-detached units and townhouse units, based on the distribution of each unit type in our low-rise scenario. Assumed prices are based on $/sf asking prices for housing developments in each municipality, with this per square foot average then applied to the assumed unit sizes of single-detached and townhouse units within the low-rise scenario. Therefore, given the unit size and unit mix employed in our low-rise scenario, the 'average price' assumed in our model is not indicative of typical average or median prices of absorbed units in a municipality

payable for a new low-rise development, and over 85% in some cases (Aurora, Clarington, Caledon and Barrie).

The second most substantial charge is typically the parkland dedication requirement or cash-in-lieu payment (though most low-rise developments will dedicate parkland rather than pay cash-in-lieu of dedication), averaging 17% of municipal charges payable. The remainder of charges imposed on low-rise development are comprised of planning fees, building permit fees, and other minor charges.

5.9.2.2 High-Rise Scenario

Our modelling of charges imposed on high-rise development was done on all 18 municipalities included in the study. The charges imposed on high-rise developments vary widely by municipality – from $96,200 per unit in Markham and $30,500 in Clarington.

On average, the high-rise charges imposed by municipalities are $57,800 per unit, or 10.7% of the price of the residential units. Out of top three municipalities with the highest charges, two were in York Region (Markham and Vaughan).

Figure 32

Municipal Charges per Unit, Ranked, High-Rise Scenario

Rank	Municipality	Upper-Tier	Charges per Unit ($)
1	Markham	York	96,233
2	Vaughan	York	81,216
3	Burlington	Halton	77,680
4	Toronto	n.a.	76,762
5	Aurora	York	72,466
6	Richmond Hill	York	68,823
7	Mississauga	Peel	67,994
8	Brampton	Peel	60,206
9	Oakville	Halton	57,498
10	Caledon	Peel	55,488
11	Milton	Halton	51,373
12	Barrie	n.a.	46,946
13	Innisfil	Simcoe	43,840
14	Oshawa	Durham	41,671
15	Whitby	Durham	38,828
16	Pickering	Durham	38,213
17	BWG	Simcoe	34,037
18	Clarington	Durham	30,497

When the municipal charges imposed are expressed as a percentage of housing prices, the charges levied on new housing development are upwards of 16% in the Town of Aurora and the City of Markham.

Figure 33

Municipal Charges as % of Housing Price Ranked, High-Rise Scenario

Rank	Municipality	Upper-Tier	Charges as % of Housing Price
1	Aurora	York	16.3%
2	Markham	York	15.8%
3	Brampton	Peel	13.8%
4	Vaughan	York	12.8%
5	Burlington	Halton	12.4%
6	Richmond Hill	York	11.7%
7	Milton	Halton	11.2%
8	Caledon	Peel	11.1%
9	Toronto	n.a.	11.0%
10	Mississauga	Peel	10.8%
11	Oakville	Halton	10.5%
12	BWG	Simcoe	9.9%
13	Whitby	Durham	8.0%
14	Oshawa	Durham	8.0%
15	Innisfil	Simcoe	7.5%
16	Pickering	Durham	7.1%
17	Clarington	Durham	6.9%
18	Barrie	n.a.	6.9%

Similar to the results of our low-rise analysis, the most significant charge in almost all of the surveyed municipalities are the development charge, typically amounting to 68% of the municipal charges payable for a new high-rise development, and over 90% in some municipalities (Aurora and Innisfil).

The second-largest charge imposed on high-rise is also usually the land dedication requirement or cash-in-lieu payment, which makes up an average of 26% of municipal charges payable.

5.9.3 Conclusions

Based on the modelling done on the two hypothetical development scenarios, there significant municipal-imposed charges on new development, but that these charges can vary significantly from one municipality to the next. However, generally, charges imposed by municipalities on new housing development are generally the highest in Toronto and municipalities within York Region and Peel Region.

- The average municipal-imposed government charges for low-rise development in the studied municipalities is $93,700 per unit or 9.7% of housing prices. Six of the eight highest charges per unit were in York and Peel municipalities;
- For high-rise, the average works out to $57,800 per unit, or 10.7% of housing prices. Three of the four highest charges per unit on high-rise development are in municipalities located in York Region.

6 POTENTIAL COST SAVINGS FROM INITIATIVES TO IMPROVE MUNICIPAL PROCESSES

This section of the report quantifies the costs (or potential cost savings) for developers and landowners involved in the time spent gaining approval for development projects.

In each case, we have attempted to put the estimates of costs associated with waiting for approvals on the basis of 'costs per month' – this puts all of the various elements of this analysis into a comparable metric, and allows for the calculation of impacts of time saved in the approvals process to be quantified, by multiplying the 'per month' costs by the number of months deemed possible to be cut off of the approvals process.

The cost estimates are modelled using the same hypothetical low-rise and high-rise development scenarios used for the analysis of charges and imposed by municipalities.

6.1 TAXES PAYABLE ON VACANT LAND

For each month in the development process, assuming a vacant site, the developer/landowner must continue to pay property taxes to the municipality. The sooner the site can receive approvals, be developed, and turned over to the ultimate buyers, who will become the taxpayers for the property, the less expense to the developer/landowner.

Based on estimated land values in each of the municipalities studied in this report, and tax rates in the studied municipalities, each month in the approvals process for a high-rise development costs an average of $1,830 per month. For a low-rise development, the average cost of each month in the approvals process is less than that of the high-rise development, averaging $406 per month.

6.2 INCREASES TO MUNICIPAL CHARGES AND FEES

As evident from the modelling done on charges imposed by municipalities on development, there are significant costs that must be paid by developers to municipalities to pay for things such as growth-related infrastructure, planning and approvals fees, etc.

Many of the charges imposed by municipalities regularly increase – some increase at the same rate as inflation (many planning fees increase 1-3% per year to stay in line with general inflation), while others are much more volatile and subject to periodic, but significant increases (such as development charges).

As the most significant charge levied by most municipalities is development charges, we have looked at what DCs were in the studied municipalities, both

at the time of writing this report and in addition to prior years, in order to estimate what a typical 'per month' change in DCs has been, to see what the potential effect of each additional month spent gaining approvals can mean.

One potential issue with this approach worth acknowledging is that it does not account for the typical way in which DCs change over time - DCs are relatively static for several years, except for some modest inflationary indexing usually in the range of 1-2% per year, but then a significant increase can come into effect at the time of a DC by-law review, which usually range anywhere from 10% to 50%, but can sometimes be much more.

On average, it is found that DCs increase by an average of approximately $379 per month for single-detached units, and approximately $143 to $211 per month for apartment units (depending on the size of unit).

Figure 34 **Average Per Month Change in Development Charges in Select Municipalities**

	% Increase 2009-2019			10-Year Change 2009-2019			10-Year Change 2009-2019		
	Single-Detached	Large Apartment	Small Apartment	Single-Detached	Large Apartment	Small Apartment	Single-Detached	Large Apartment	Small Apartment
Municipality	*Percent*			*Dollars per Unit*			*Dollars per Unit per Month*		
Oakville	96%	54%	70%	41,145	14,605	12,537	342.87	121.71	104.48
Burlington	55%	13%	34%	21,218	3,128	5,605	176.82	26.07	46.71
Milton	69%	34%	52%	27,812	8,453	8,981	231.77	70.44	74.84
Brampton	134%	98%	135%	56,110	30,366	23,038	467.58	253.05	191.98
Mississauga	216%	183%	220%	68,347	42,533	28,765	569.56	354.44	239.71
Caledon	132%	104%	133%	51,526	28,698	21,337	429.38	239.15	177.81
Toronto	507%	446%	465%	65,413	38,162	25,722	545.11	318.02	214.35
Markham	162%	149%	128%	66,043	39,350	28,092	550.36	327.92	234.10
Vaughan	227%	221%	145%	85,201	52,389	33,856	710.01	436.58	282.13
Richmond Hill	147%	154%	89%	52,683	33,985	19,303	439.03	283.21	160.86
Pickering	80%	89%	38%	23,437	15,438	6,321	195.31	128.65	52.68
Whitby	104%	93%	46%	30,563	17,569	7,882	254.69	146.41	65.68
Oshawa	123%	129%	49%	33,424	21,323	8,325	278.53	177.69	69.38
Clarington	62%	45%	26%	20,228	9,112	4,718	168.57	75.93	39.32
Aurora	155%	152%	108%	57,082	35,142	22,769	475.68	292.85	189.74
Bradford West Gwillimbury	127%	98%	123%	39,784	19,919	18,476	331.53	165.99	153.97
Barrie	157%	150%	113%	42,115	23,922	15,318	350.96	199.35	127.65
Innisfil	298%	260%	248%	35,603	20,970	17,218	296.69	174.75	143.48
Average							378.58	210.68	142.71

Source: Altus Group Economic Consulting

6.3 CARRYING COSTS OF LOANS

During the approvals process, applicants will have typically obtained financing for their project and will pay interest on the construction loan until all proceeds from sales have been received.

The estimate of additional carrying costs per month is based on a high-level model that estimates the cost of construction financing, with one version assuming a 30-month construction financing period, and a second version assuming a 31-month construction financing period, with the difference in the

total cost of construction debt in the two versions the estimated 'per month' difference.

It is estimated that the cost of construction debt is approximately $91,600 for each additional month that construction financing is required for high-rise. For low-rise, each additional month would add $139,600 per month in financing costs associated with construction loans.

6.4 COST INFLATION

When a development is in the approvals process the costs associated with the construction of the building can increase. This includes the costs of both materials and labour.

6.4.1 Construction Cost Inflation

The construction costs of building typically increase over time. Over the Q1 2017 to Q3 2019 period, construction costs have increased by 11.8% for high-rise apartment buildings, 15.1% for single-detached homes, and 14.8% for townhouse units. This equates to an average monthly increase of between 0.34% and 0.42% per month, depending on the unit type. Each additional month that an application is in the municipal approvals process adds to project construction costs, for all unit types.

Based on the hard construction costs of a hypothetical high-density residential building, we were able to model the average monthly increase in construction costs as a result of municipal processing time - each additional month would add approximately $181,800 monthly in construction costs for a low-rise development and approximately $93,900 per month for a high-rise development.

6.4.2 Wage Inflation

Based on Statistics Canada data on wage rates by worker types, the hourly wage of various contractors involved in the construction of a building increase by an average of $1.21 per hour, per year. On a per month basis, this would be a $0.10 per hour increase for each contractor involved in the project.

Figure 35 **Average Hourly Wage, Select Construction Trades, 2013-2018**

Year	Carpenter	Crane Operator	Cement Finisher	Electrician	Labourer	Plumber	Bricklayer	Roofer	Total / Average
					Dollars per Hour				
Toronto CMA									
Sep-13	52.75	52.66	49.68	58.58	48.66	59.71	52.95	51.66	53.33
Sep-18	59.43	58.88	54.72	65.64	53.75	66.70	58.25	57.51	59.36
5-Year Increase	6.68	6.22	5.04	7.06	5.09	6.99	5.30	5.85	6.03
Average Monthly $ Increase	0.11	0.10	0.08	0.12	0.08	0.12	0.09	0.10	0.10
Average Monthly % Increase	0.20%	0.19%	0.16%	0.19%	0.17%	0.18%	0.16%	0.18%	0.18%

Source: Altus Group Economic Consulting based on CANSIM, Table 327-0003

Based on Altus Group's model that estimates construction-related employment associated with residential developments, a 125-unit apartment building would generate 319 person-years of employment, which is equivalent to 319 persons working for an average of one year each (or 638 persons working for an average of 6 months each, etc.). For a low-rise development (of 75 single-detached and 50 townhouses), approximately 432 person-years of employment would be required.

Figure 36 **Estimate of Additional Wage Costs per Month (Average), Toronto CMA**

	Low-Rise	High-Rise
	Person-Years	
Person-Years	432	319
	Person-Months	
Person-Months	5,186	3,832
	Dollars per Hour	
Average Monthly Increase in Hourly Wages	0.10	0.10
	Dollars per Month	
Average Monthly Increase in Labour Costs	87,539	64,687

Source: Altus Group Economic Consulting based on Statistics Canada

Assuming each of these workers would be subject to a similar increase in wages evident from the Statistics Canada data, each additional month an application is subject to the municipal approvals process would add, on average, roughly $64,700 per month in additional labour costs to the high-rise project due to wage inflation. For the low-rise project, the additional wage inflation expected each month amounts to approximately $87,500.

6.5 CONCLUSIONS

Figure 37 combines the various elements modelled and estimates the total monthly cost to a developer / landowner for each month an application is within the development approvals process.

Figure 37 **Summary of Per Month Costs of Application and Approvals Process, Toronto CMA**
Estimates based on low-rise scenario and high-rise scenario (125 units each)

Development Scenario	Taxes on Vacant Land	Carrying Costs of Loans	Increased Municipal Charges	Construction Cost Inflation	Labour Cost Inflation	Total
			Dollars			
Low-Rise	735	139,571	46,027	181,798	87,539	455,669
High-Rise	2,290	90,564	24,371	93,854	64,687	275,766

Source: Altus Group Economic Consulting

Overall, the estimated costs associated with each additional month a project is in the approvals process adds approximately $455,700 in costs per month for the hypothetical low-rise project, and $275,800 in costs per month for the hypothetical high-rise project. These costs equate to an additional $1.46 per buildable square foot per month for the low-rise project, and $2.21 per buildable square foot per month for the high-rise project.

7 BEST PRACTICES FOR IMPROVING MUNICIPAL PROCESSES

While our study is generally limited to the 18 municipalities, in this section of the report, which scans for best practices for improving municipal processes, we have allowed for the scan to include any community within Ontario that may be undertaking positive steps towards improvement to the municipal approval process.

It is important to note that development application timelines on decisions have recently been shortened under Bill 108. Municipalities will have to render decisions significantly more quickly in some cases. The benefit of these shortened timelines should result in not only better timelines for developers, but it will also create significant incentives for municipalities to re-examine their processes, workflow, technology, and organizational structures to find efficiencies and more effective ways of reviewing applications.

Figure 38

Planning Application Type	Timelines Prior to Bill 108	Timelines After Bill 108
Official Plan Amendment	210 Days	120 Days
Zoning By-law Amendment	150 Days	90 Days
Plan of Subdivision	180 Days	120 Days
Site Plan	30 Days	30 Days

7.1 OVERVIEW OF CURRENT INITIATIVES

7.1.1 City of Hamilton - Open for Business Initiative

The City of Hamilton started an Open for Business initiative, with one of the goals being to improve the City's development application process. One of the identified solutions was for the City to review its draft plan of subdivision approval process, with the new process being enacted in early 2017.

One key change was making sequential processes into parallel processes, so the City allows applicants the option to have processes for minor variances, water service assessments, site plan approvals, engineering reviews and building permit applications run concurrently, with the caveat that some processes are still conditional on others, and a change in one may result in a re-submission being required. However, in the case of

resubmission, applications requiring only modest revisions receive priority processing.[4]

The City has also started issuing fewer circulation letters, instead opting for one standard consultation letter for all reviewing parties. The City has estimated that this change alone typically saves five business days for applicants.

The City found that prior to making the improvements to the subdivision approvals process, the average processing time from complete application to draft plan approval was 1,350 days (or approximately 44 months), with approximately half of that time related to City review, but the other half due to awaiting comments, permits or consents from ministries or regional agencies, as well as time taken by applicants responding to comments, or revising plans to address comments made. Within this period, the City found that it took an average of 187 days from receiving an application to provide an initial set of comments, and resolving comments required an average of 2 to 4 revisions to the submitted plans.

7.1.2 City of Brampton – Streamlining Development Application System

The City of Brampton is in the process of adopting a community planning permit system ("CPPS") for the Queen Street East Precinct, which covers lands along the Queen Street East corridor from Highway 410 in the east to Etobicoke Creek in the west. The CPPS would merge the currently separate processes of rezoning, minor variance and site plan control into one process.

The objectives of the CPPS is to 'front-end' many of the required technical studies, meaning that once the CPPS is done, a developer only has to deal with site-specific issues, rather than larger-scale issues. This system is expected to significantly reduce the typical planning process timelines.[5]

7.1.3 City of Toronto End-to-End Review

The City of Toronto has commenced with an "End to End Review" of its development review process. As part of this review process, the City retained consultants that submitted a report to Council in the fall of 2019 which identified 31 systematic challenges that negatively impact development application outcomes in terms of efficiency, consistency, transparency, timeliness.[6]

In total, the KPMG report provides 20 recommendations on how the City Planning can improve its operational model and service delivery. An integral part of the proposed transformation is to replace the current "hub and spoke"

[4] Association of Municipalities of Ontario, Reducing Business Burdens …….

[5] City of Brampton, Staff Report re: Queen Street Corridor Land Use Study, (Sept 27, 2019)

[6] KPMG, End-to-End Review of the Development Review Process, (August 16,2019)

system, where a community planner solicits comments from other colleagues and departments, as this creates divisional conflict and disperses accountability. The proposed new system is based on a multi-disciplinary team model where there are team members representing various departments that collaboratively work on development applications together.

Within the KPMG report, there are various proposals geared towards operationalizing the new transformational model. These include but are not limited to:

- Establish a formal mechanism to identify and accelerate applications with City-wide significance;
- Shift specialized work to specialized teams to enhance system capacity;
- Adopt a standard, City-wide approach to the use of guidelines and draft policies, and make that approach publicly available;
- Establish circulation limits and automatic escalation to reduce application timelines and incentivize collaboration;
- Establish a new, senior-level, Business Transformation Lead reporting to the Chief Planner with interdivisional accountability for the development review process;
- Modernize the existing application workflow and management system;
- Improve online application tracking to enhance transparency and improve customer service;
- Improve the availability of development review-related information and data to enhance application quality;
- Enhance transparency and consistency by defining stakeholder roles and developing standard operating procedures;
- Improve project management-related tools and techniques to empower multidisciplinary teams; and
- Modernize performance measures and adopt a review mechanism to monitor their on-going effectiveness.

Many of the recommendations can be categorized within the ‘buckets’ of technology improvement, project management enabled team collaboration, operational standardization, and stakeholder communication improvements.

The KPMG report placed a lot of emphasis on improving communications and information transfer between applicant and planning staff and between staff. Improved communication was also deemed important to create consistent operational standards to enhance predictability, transparency, and accountability.

As of July 2020, this initiative has led to the establishment of the “Concept to Keys” team that is focusing on improving the development review process, by

consulting with customers on the nature and quality of the interactions they've had with the City. The insights yielded are being used to help drive improvements to process and operationalizing technology.

7.1.4 City of Burlington – Cutting Red Tape Red Carpet Task Force

In early 2019, the Mayor of Burlington assembled a "Red Tape Red Carpet Task Force" that spent 5 months collecting insights and ideas from the City's business community, partner organizations, and staff. This resulted in a report submitted to council in the fall of 2019 with 22 recommendations to improve department operations and customer service.

The recommendations include the establishment of a Chief Business Development position at City Hall to deal with outreach and expediting applications, as well as, the creation of key performance indicators ("KPI"). In addition, the City hired consultants to take a deep dive into service delivery and functional improvements of various departments, including the development application process. The review looked at the site plan approval and building permit issuance stages of the process for infill development, both multi-residential and non-residential types.

The report highlighted that as part of a building permit issuance process, applicants require both a zoning clearance and grading/drainage certificate before they apply for a permit.[7] This process came about due to streamlining efforts that were in reaction to Bill 124 (2005) that required a decision on a building permit to be issued within 10 business days. As of part of the certificate process, there is an aspirational target of having these completed in 5 to 7 days, before the 10-day building permit process begins.

Despite there being many interwoven technical issues that are addressed in both certificate processes, each can be applied for separately. As well, often an applicant will require a tree clearance permit, but this is almost never applied for at the same time as the other certificates, notwithstanding there being an interplay between the zoning, tree preservation, and the building permit bylaws. The report noted that many applicants are unaware of the relationship between these processes and the City's website does not sufficiently highlight them.

Other issues noted in the report include an organizational design that is not optimally designed for an efficient certificate review process with staff currently working on a "best effort" timeframe.

[7] Performance Concepts Consulting & Dillion Consulting, City of Burlington Service Delivery Reviews Technical Report, (December 19th, 2019).

The report notes that there is consensus of four “best practices” emerging within the Greater Golden Horseshoe with regards to the site plan approval process. They are:

1. Mandatory pre-consultation meetings between applicants and city staff – this ensures that when applications are submitted, they are of a high-quality “complete” nature.
2. Zero-tolerance rule regarding the acceptance of incomplete application submissions – incomplete applications waste finite municipal staff resources that could be used on complete applications.
3. E-portal and workflow software implementation – helps staff organize and track applications, as well as communications internally and externally with the applicant.
4. Delegated site plan approval to senior City staff – allows for timelines to be compressed while continuing to be democratically accountable with more controversial applications being elevated to the attention of Council.

Unlike other jurisdictions, Burlington already allows for staff delegation of site plan approval, as it is estimated to save an estimated 50 to 60 days from the usual approval process. However, further improvements in this regard would be to continue the default processing rule with as few escalations to council as possible.

Currently, the vast majority of Burlington’s progress on the recommendations established by the task force and consultants report have an “in-progress” status. The municipality is currently only in the early stages of this project, it is expected that it will take some time before implementation is complete.

7.1.5 City of Kawartha Lakes – Planning Approvals Task Force

The City of Kawartha Lakes has been experiencing a steady and significant increase the demand for development planning staff usage, such as a 35% increase pre-consultation meetings between 2016 and 2017. In early 2017, City Council adopted a series of recommendations by the Planning Approvals Task Force, which was setup to help improve application processing and business engagement.

A common complaint from stakeholders was a perceived lack of customer service by planning staff with the perception of negative or adversarial attitudes towards applicants, especially those with lesser knowledge of the building process. To rectify this issue, staff were required to take customer service training, and standards were created in operational processes, such as returning phone and emails within 2 business days or general inquires within business 5 days. Even if staff were not able to deal with an inquiry due

to resource limitations, they were encouraged to engage with the stakeholder so that they know the message has been received.

In addition to interpersonal operational improvements, the task force identified other types of resources to help improve operations. This included the creation of report requirement checklists and processing cost outlines to be provided to applicants during pre-consultation meetings.

In the summer the 2017, the City implemented new software called "Cityworks", which allows staff to digitally store all information on properties, including the ability to track applications. While this tracker is not made available to the public yet, the software allows any staff member to view the application and answer general inquiry questions rather than requiring the specific planner on the file's attention, enabling a more efficient division of labour and a better use of staff time.

In addition to providing staff with new internal technological capabilities, the City embarked on a rebuild of their municipal website to facilitate better communication. This new portal was completed in July 2017 and includes features such as development guides, checklists, and the ability to examine a properties official plan land-use designation or zoning within a dedicated page.

Finally, the municipality also examined the possibility of expanding the power of the Director of Development Services with the ability to approve subdivision agreements after a council has permitted a Draft Plan Approval. However, staff found an LPAT case related to this process and recommended back to council that they continue to have oversight on the execution of subdivision agreements.[8] At this time, the Director only has the ability to provide site plan approvals.

7.2 THEMES EMERGING FROM PROCESS REVIEWS

There are several key themes involved in the process reviews underway, or recently completed

Improving the Application Process Requires a Continuous Improvement Plan.

There is no single 'fix-all' that will improve development application processes other than through continuous examination and refinement. This requires a first step of identifying and standardizing as many processes as possible to foster an environment of consistency, accountability, and transparency. Standardization can involve creating simple rules such as the timeframes within which staff must respond to inquiries, or it can become as complex as creating templates for development application comments. Once processes

[8] Local Planning Appeal Tribunal, formerly known as the Ontario Municipal Board ("OMB")

have a baseline standardization, they can then be tracked and examined under the lens of a key performance indicator ("KPI") and from there be improved upon.

Miscommunication Creates Conflicts that Lead to Delays

The development application process requires the transfer of information not just between a single developer and the planner on the file. The process includes many different staff members in various departments for both the applicant and the municipality, as well as, outside consultants and other stakeholders like council members. It is important to examine information flows and how best to minimize potential areas of miscommunication, such as not knowing if an inquiry was received.

Strategies to deal with this include providing a one-window portal that can be accessed either internally or externally to track developments, the creation of checklists and other materials that can be retrieved before a pre-consultation and are provided during the meeting, having a website with up-to-date information with detailed explanations of processes and other features like property data, contact information, online submission forms or payment options, etc.

Pay Close Attention to Workflows and Team Composition

How municipal staff deal with development applications affects how long it takes to process. There is no one correct organizational structure that can be implemented, however, many larger municipalities are finding a multi-disciplinary team-based approach is more effective in dealing with large volumes of very complex applications rather than a "hub and spoke" model. Regardless of the ultimate model used, careful attention should be paid to conflicts and redundancy in the workflow process.

Empower Staff with More Delegated Powers

Many municipalities are looking at ways to transfer approval authority to senior planning staff. This allows councils more to focus attention on difficult files, while allowing less complex applications to be fast-tracked. Providing an applicant with the ability to appeal a decision from staff to council ensures that applicants are still able to maintain accountability for their projects, even when approval authority is delegated outside of the municipal Council.

Reduce Required Statutory Processes Where Possible

Pre-zoning systems are a tool that some municipalities have implemented but many others have not. There is a potential to significantly improve the overall development process by using this tool, and minimizing the effort and technical studies required to bring an application forward.

Have a Staff Member That "Owns" Transformation and Outreach

While costly, many municipalities are creating senior-level positions that while not part of the direct development application process, have oversight and interactions with other staff members involved in the development review process. This provides another contact point between applicants and municipal staff that can help identify, escalate, and solve major problems in a timely manner and more importantly, prevent a similar problem from arising again in the future by transforming processes where needed.

Improvements are Limited Without Technology

There are many software packages that municipalities are using to help with internal project tracking and workflow management. These software packages can allow for more standardized project management-based team collaboration, so staff can focus more time on value-added tasks, such as examining the proposed grading of a building, instead of more administrative tasks, like dealing with minor inquiries or spending time trying to find a paper copy of a file that would be more readily accessible with an electronic file management system.

While the trend of adopting internally-oriented technology tools is apparent in many municipalities, most municipalities have yet to adopt external-facing tools. The benefit of this technology and things such as e-portals, is that they can provide a convenient access point for application submissions or fee payments, as well as, reduce delays associated with intake.

8 CONCLUSIONS

Based on a review of municipal planning processes, planning features, government charges, and other elements of research undertaken into the studied municipalities, there are several overarching findings about how municipalities compare, and recommendations for municipalities.

8.1 SUMMARY OF FINDINGS

Figure 39 summarizes the findings from the three major elements studied that feed into housing affordability – getting housing approved, ensuring approvals are done in an expedient manner, and government charges that get borne by buyers/renters.

Overall, the municipalities of Barrie, Burlington and Oakville rank atop the list, with all three municipalities having top-6 ranks in each of the categories. The largest municipalities by population among those studied (Toronto, Mississauga, Brampton, Markham, Vaughan) all rank on an overall basis no higher than 10th.

Figure 39 **Overall Scorecard - Planning Features, Government Charges, Approvals Timelines**

	Planning Features *rank (1=best)*	Government Charges *rank (1=lowest)*	Approvals Timelines *rank (1=best)*	Score (Average Rank) *lower=better*	Rank
Barrie	2	3	5	3.3	1
Burlington	2	6	3	3.7	2
Oakville	2	9	4	5.0	3
Clarington	7	1	9	5.7	4
Oshaw a	16	5	1	7.3	5
Pickering	11	2	10	7.7	6
Innisfil	15	7	2	8.0	7
Milton	7	10	n.a	8.5	8
Whitby	16	4	7	9.0	9
Toronto	1	14	15	10.0	10
Vaughan	6	17	8	10.3	11
Mississauga	9	11	13	11.0	12
Brampton	5	15	14	11.3	13
Richmond Hill	11	13	11	11.7	14
Caledon	9	12	16	12.3	15
Aurora	11	16	12	13.0	16
BWG	14	8	17	13.0	16
Markham	18	18	6	14.0	18

Note: Government Charges based on average of low-rise and high-rise scenarios, as measured by government charges as % of housing prices

Source: Altus Group Economic Consulting

8.2 RECOMMENDATIONS

8.2.1 Need for Increased Transparency and Simplicity

Many municipalities do not have clear development guidelines or application checklists. An even greater number of municipalities not provide specific terms of reference for required technical studies and reports.

Increasing transparency and specificity surrounding application requirements is a proactive, and relatively easy way to cut down on incomplete application submissions and reduce the number of resubmissions required.

Excerpt from City of Toronto Development Guide

APPLICATION REQUIREMENTS

	Official Plan	Zoning By-Law	Plan of Subdivision	Plan of Condominium	Consent to Sever	Site Plan Control Approval
REQUIREMENTS of the CITY OF TORONTO ACT, PLANNING ACT and/or Regulations	•	•	•	•	•	
ADDITIONAL REQUIREMENTS of the OFFICIAL PLAN						
In addition to the prescribed requirements of the Planning Act, the following non-prescribed information will also be required to evaluate a planning application, unless it is determined that certain studies, plans, drawings and reports are not applicable.						
Provision of the additional information indicated under the Official Plan, Zoning By-law, Plan of Subdivision, Plan of Condominium and Consent to Sever headings is mandatory under the Planning Act and this Official Plan.						
Provision of the additional information indicated under the Site Plan Control Approval heading is not mandatory but may be requested by the City in order to enable a site plan control application to be evaluated.						
Completed Application Form – including Permission to Reproduce and Provision of Requisite Copies. Applicants are required to (a) grant the City permission to reproduce, in whole or in part, any document submitted as part of a complete application for internal use, inclusion in staff reports or distribution to the public for the purpose of application review, and (b) provide a reasonable number of copies of any such document, or parts thereof, in paper and/or electronic form, to the City for internal use and distribution to the public for the purpose of application review.	•	•	•	•	•	•
Boundary Survey – showing and quantifying the area(s) of all land parcel(s) relevant to the development proposal.	•	•	•	•	•	•
Appropriate Plans and Drawings	•	•	•	•	•	•
Planning Rationale – containing a description of pre-application consultation, including any community outreach, public meeting(s) and interested persons contact list created by the applicant in accordance with City standards.	•	•	•	•	•	
Draft Amendments	•	•				
Accessibility Design Standards Checklist			•	•		•
Air Quality Study		•	•			•
Arborist Tree Preservation Report		•	•	•	•	•
Archaeological Assessment – for properties in the City's database of lands containing archaeological potential.	•	•	•		•	•
Architectural Control Guidelines – when warranted by the scale or nature of the proposed development.		•	•			•
Avenue Segment Review – when required by the provisions of Section 2.2.3.	•	•				

Source: City of Toronto Official Plan

8.2.2 Delegate More Approval Authority to Staff and Officials

That development approvals can be delayed because of issues with timing of municipal committee or council meetings is a potentially avoidable issue for some applications. Staff should be given the authority to assess and approve applications that broadly meet official plan requirements but need additional zoning changes, where those zoning changes are within the bounds of permitted discretion for the delegated authority. This can be done through increased use of development permit systems, or other forms of delegated authority. This can reduce council workloads and can eliminate unnecessary political interference in applications that meet the intent and policies of municipal plans.

8.2.3 Use of Technology

Its important that municipalities invest in more advanced development tracking software, and potentially gradually phase-in online development submission systems. The changes to municipal development submission

systems in response to the COVID-19 pandemic will be an important first step in getting e-portal systems acceptance on a broad scale.

Technology can be a critical component in improving development approval timelines by supporting improved workflows, transparency, and creating a more collaborative environment within and across planning and related municipal departments involved in the development application review process.

New Homeowner Money in the Government's Bank:

How Unspent Municipal Reserves are Impacting Building Livable, Affordable Communities in the GTA

Independent Real Estate Intelligence

October 5, 2021

Altus Group BILD

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October 5, 2021

EXECUTIVE SUMMARY

Altus Group Economic Consulting was retained by BILD to review trends in the collection and usage of various government charges in the Greater Toronto Area ("GTA"). The study summarizes how these charges are levied, how the quantum of charges imposed has changed over time, how the charges are utilized year-to-year, and quantifying funds that municipalities have in reserve. The study focuses on a total of 16 GTA municipalities, including a mix of upper-tier, single-tier and lower-tier municipalities.

Upper-/Single-Tier	City of Toronto	York Region	Peel Region	Halton Region	Durham Region	Simcoe County	City of Barrie
Lower-Tier		**Vaughan, Markham**	**Mississauga, Brampton**	**Oakville, Burlington**	**Whitby, Oshawa**	**BWG**	

DEVELOPMENT CHARGES

As of Year-End 2019, Nearly $3.3 Billion was Available in DC Reserve Funds for New Community Infrastructure

Over the 2013-2019 period, the studied municipalities saw their combined development charge (DC) reserve fund balances increase to $3.25 billion as of 2019, an increase of $1.35 billion from 2013.

The City of Toronto was responsible for the majority of the increase in DC reserves, as the City's DC reserve fund balance rose by $839 million over the 2013-2019 period, and as of year-end 2019, the reserve fund had a surplus of $1.2 billion.

Figure ES- 1

Change in DC Reserve Fund Balances, Studied Municipalities	
2013	$1.91 billion
2019	$3.25 billion
Change 2013-2019	+$1.34 billion (+70%)

The build-up of DC reserve fund balances seen in some GTA municipalities represents community infrastructure paid for by recent developments that has not been built. Based on recent annual average DC expenditures, the combined reserve fund surplus represents several years worth of funded infrastructure spending.

Development Charge Rates Have Increased by an Average of 156% Since 2009

Over the 2009-2021 period, development charges in the Greater Toronto Area have increased significantly by an average of 156% (using the single-detached unit rates) in the studied municipalities, which equates to an annual average increase of 8.5% per year.

The average DC rate for a single-detached unit (SDU) has increased from $31,500 per unit in 2009 to approximately $80,600 per SDU in 2021. The highest DC rate charged is in the City of Vaughan, at a rate of $118,400 per SDU (City and Region of York rates combined).

Similarly, average DC rates for apartment units have increased by approximately 125% since 2009.

Slower than Forecast Housing Growth (Among Other Factors) Caused DC Revenues to Fall Short of Projections

Over the 2013-2019 period, the study municipalities received a combined $10 billion in DC revenues, and spent $10.4 billion. However, both the revenues and expenditures are each approximately 62% of forecast revenues/expenditures from municipal DC studies.

Figure ES- 2

	Projected (2013-2019)	Actual (2013-2019)	Actual as % of Projected
DC Revenues	$16.1 billion	$10.0 billion	63%
DC Expenditures	$16.5 billion	$10.4 billion	62%

The shortfall in DC revenues relative to forecasts is due to numerous factors, but primarily due to housing and non-residential space growth being slower than projected, as all municipalities (except the City of Toronto and Peel

Region) saw significant shortfalls in population and employment growth relative to forecast.

In the aggregate, municipalities appear to have responded to lower than forecast DC revenues by proportionately reducing DC expenditures. However, some municipalities have disproportionately delayed expenditures relative to the shortfall in DC revenues.

For example, while the City of Vaughan's DC revenues were 85% of projections, the City's expenditures were only 29% of expenditure plans as set out in DC background studies. Other municipalities spending disproportionately less include Whitby, Toronto and Oshawa.

Figure ES- 3

Comparison of Projected and Actual DC Revenues and Expenditures, 2013-2019

Sorted by Difference in DC Expenditures & DC Revenues (as % of Respective Projections)

	Actuals as % of Projections		
	DC Revenues	DC Expenditures	Difference
Municipality	*Percent*		*Pct Pts*
Peel Region	59%	98%	40
York Region	61%	85%	24
Markham	49%	60%	11
Bradford West Gwillimbury	98%	108%	10
Barrie	84%	90%	6
Burlington	67%	68%	1
Halton Region	70%	69%	(1)
Brampton	61%	55%	(6)
Mississauga	65%	56%	(8)
Durham Region	37%	26%	(11)
Oakville	77%	57%	(21)
Simcoe County	78%	56%	(22)
Oshawa	69%	43%	(25)
Toronto	77%	41%	(36)
Whitby	51%	14%	(37)
Vaughan	85%	29%	(56)

Source: Altus Group Economic Consulting

Other municipalities, particularly those responsible for major water and wastewater infrastructure investments that are required to be installed prior to growth occurring, such as York Region and Peel Region, continued to spend DC funds as planned, despite seeing shortfalls in DC revenues relative to forecast.

PARKLAND CASH-IN-LIEU

Municipalities acquire parkland and other forms of open space through parkland dedication requirements imposed on new developments.

Alternatively, a landowner can provide funds in lieu of parkland dedication to a municipality where physical land dedication is not possible to incorporate into the development, known as 'cash-in-lieu' of parkland, or "Parkland CIL", at a rate not to exceed 1 hectare per 500 dwelling units. Despite the statutory allowance, some municipalities choose to apply fixed per unit rates for parkland, a capped percentage of land area, or a combination thereof, so as to not discourage high-density development.

Based on Parkland CIL revenues and expenditures over the 2015-2019 period, there is a significant mismatch between Parkland CIL revenues and expenditures from reserves, with the municipalities studied receiving a total of $193 million per year in Parkland CIL revenues but spending only $108 million per year (or 56% of revenues). Only one municipality studied (Town of Oakville) spent more than 85% of revenues generated.

Figure ES- 4

Change in Parkland CIL Reserve Fund Balances, Studied Municipalities	
2013	$375 million
2019	$1.48 billion
Change 2013-2019	+$1.1 billion (+294%)

The imbalance between Parkland CIL revenues and expenditures has caused Parkland CIL reserve fund balances to increase by nearly 300% over the 2009-2019 period, from $375 million in 2009 to $1.48 billion in 2019. Every municipality studied has seen increases of 60% or more to their reserve fund balances since 2009. The City of Toronto has the largest parkland CIL reserve fund balance, at $1.03 billion as of 2019, up 372% or $815 million from 2009. Numerous municipalities have also seen Parkland CIL reserve fund increases of more than 300% since 2009, including Toronto (+372%), Whitby (+331%), Brampton (+488%), Markham (+441%) and Barrie (+644%).

A key concern with increasing Parkland CIL reserve funds is that the unused money in Parkland CIL reserves, based on likely rates of interest/investment earnings, are unlikely to keep pace with increases in land values, which can diminish the purchasing power of the funds kept in reserve.

To make better use of the Parkland CIL funds generated from new development, municipalities should seek opportunities wherever possible to acquire parklands as early in the planning process as possible (whether in greenfield environments or emerging high-density/urban areas), as it provides an opportunity to save substantial funds by avoiding future appreciation of land prices and avoiding competing in the market while trying to acquire new lands. This approach, based on our review of two recent cases in the GTA, can result in substantial cost savings for municipalities and ensure that community amenities are in place when development of an area is underway.

SECTION 37 DENSITY BONUSING

The former Section 37 of the *Planning Act* (to no longer be in effect as of September 2022) allows for increases in permitted height and/or density through the zoning by-law in return for 'community benefits'.

Section 37 contributions were meant to help municipalities provide community infrastructure required by the people being accommodated in a development over and above the permitted as-of-right zoning. While Section 37 provisions are used in some '905' municipalities, it has been most frequently utilized in the City of Toronto.

Over the 2017-2019 period, the City of Toronto received roughly $61 million per year in cash contributions, or $184 million over the three-year period. Of the $184 million in Section 37 cash contributions received, roughly half was earmarked for specific improvements such as affordable housing, parkland improvements, streetscape improvements, public agency space, public art, library improvements, child care facilities, etc.

At the end of 2019, the City had a surplus of approximately $303 million in its Section 37 reserve fund, with over 70% of this balance attributed to four Wards within Downtown Toronto.

Figure ES- 5

Total Amount of Section 37 Density Bonus Reserves, Studied Municipalities	
2019	$311 million

COMBINED CAPITAL RESERVES

In total, the studied municipalities have a combined $5.05 billion in their development charge, Parkland CIL and Section 37 Density Bonus reserves. This represents a substantial backlog in growth-related infrastructure paid for by recent housing developments, and also represents an opportunity for infrastructure funding that can help to make existing and new communities more attractive to residents and businesses, and provide improved amenities such as parkland, recreation space, libraries to communities, and provide the hard infrastructure such as roads, water, and sanitary infrastructure that can provide additional capacity for new development.

Figure ES- 6

Current Combined Balances in Reserve Funds, Municipal Charges on New Development (as of year-end 2019)	
Development Charges	$3.26 billion
Parkland CIL	$1.48 billion
Section 37 Density Bonusing	$311 million
Total	$5.05 billion

The $5.05 billion in reserves presents an opportunity for the Greater Toronto Area to stimulate the economy with stimulus funding that is presumed to be ready and available to be spent and generate economic activity and employment opportunities.

OTHER FISCAL CONSIDERATIONS

Residential Property Taxes per Household Have Only Increased by 1%-19%, After Inflation Since 2009

The property taxes per household increased for selected municipalities[1] in the range of 22% to 43% over the timeframe, which equates to an average annual

[1] The property taxes paid to upper-tier municipalities, where applicable, are embedded within the estimated property taxes per household in each lower-tier municipality.

increase of 1.80% per year to 3.28% per year. After accounting for inflation, the property tax revenues municipalities received in 2019 were little changed from what they were in 2009, with the increases to property tax revenues per household ranging from 1% to 19%.

Increases to User Fees and Service Charge Revenues Have Outpaced Increases to Property Tax Revenues in Most Municipalities

Meanwhile, user fees and service charges have increased between 10% and 78% in the studied municipalities, with the rate of change higher for user fees/services charges than for property taxes.

Debt Guideline

The Province limits a municipality's annual debt charges to 25% of net revenues (with exceptions made for York Region) – as of 2019, no municipality had debt charges above 11% of net revenues suggesting that municipalities generally have limited borrowing and have significant room to borrow funds for capital infrastructure projects even if immediate funding sources weren't available. The average debt charges as a share of net revenues in the studied municipalities was 4.6%, less than one-fifth the Provincial limit, and only moderately higher than in 2009 (4.0%).

Municipal Land Transfer Tax

The City of Toronto is the only municipality in Ontario with the authority to levy a municipal land transfer tax (MLTT), which is imposed on all real estate transactions, including the purchase of new homes and resale homes.

Over the 2009-2019 period, the City has raised $5.45 billion in MLTT revenues, or an average of approximately $495 million per year, with the City receiving more than $700 million in each of 2017, 2018 and 2019. While there is potential for year-to-year volatility of MLTT revenues, the experience thus far has been that it is a reliable, steadily increasing source of funding.

The majority of funds generated go towards operating costs and tax stabilization reserves. As of 2020, the City directed just 5% of MLTT revenues to the City's capital financing reserves, but the City is exploring opportunities to direct larger portions towards the City's capital program.

The City's $799 million in MLTT revenues in 2019 represents approximately 6.2% of all municipal operating expenditures, and the revenues (if used

entirely to fund operating costs) would be enough to fund the entirety of operating costs associated with the City's Fire Services ($567 million) and Library Services ($226 million) combined.

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1 INTRODUCTION

1.1 BACKGROUND

Altus Group Economic Consulting was retained by BILD to review trends in the collection and usage of various government charges in the Greater Toronto Area ("GTA"), including charges related to the development of new housing, such as development charges ("DCs"), parkland dedication or cash-in-lieu ("CIL"), and Section 37 density bonusing, as well as broader on-going charges, such as property taxes, user fees and service charges. The study summarizes how these charges are levied, how the quantum of charges imposed has changed over time, and how the charges are utilized year-to-year.

1.2 STUDY MUNICIPALITIES

In total, the study focuses on a total of 16 municipalities, including the City of Toronto, the four GTA regional municipalities (Peel, York, Halton and Durham), Simcoe County and the City of Barrie, as well as nine (9) lower-tier municipalities.

Figure 1

Upper-Tier / Single-Tier Municipalities	Lower-Tier Municipalities
City of Toronto	n.a.
York Region	Vaughan, Markham
Halton Region	Oakville, Burlington
Peel Region	Mississauga, Brampton
Durham Region	Whitby, Oshawa
City of Barrie	n.a.
Simcoe County	Bradford West Gwillimbury

1.3 TRENDS IN POPULATION AND EMPLOYMENT GROWTH

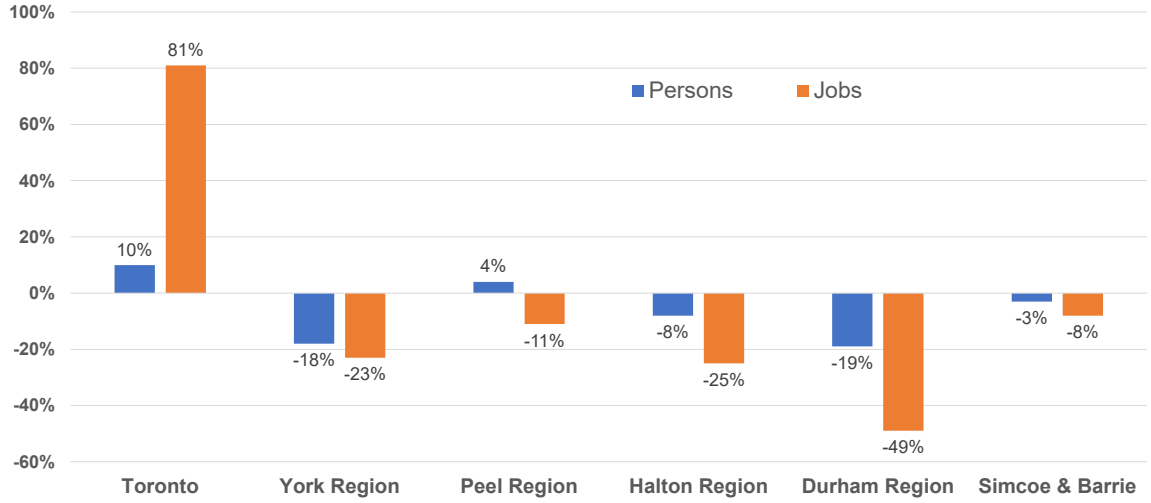
An important element in the analysis, particularly in the area of development charges is assessing how municipalities have grown compared to forecasted population and employment from Schedule 3 of the Growth Plan for the

Greater Golden Horseshoe. Municipal studies underpinning municipal fees and charges incorporate forecasted population, housing and employment from their respective Official Plans, which are to be based on forecasts of the same from the Growth Plan.

In many cases, when comparing projected revenues to actual revenues, any shortfalls can be primarily explained by a relative lack of growth compared to forecasts in most municipalities.

Figure 3

Surplus / Shortfall in Persons & Jobs Relative to Growth Plan Forecasts, 2001-2019



Source: Altus Group Economic Consulting, based on Hemson Consulting GGH: Growth Forecasts to 2051, Growth Plan for the Greater Golden Horseshoe Schedule 3, Statistics Canada Annual Demographic Estimates

Other than in the City of Toronto which saw employment growth from 2001 to 2019 that was 81% greater than forecast[2], all of the other upper-tier/single-tier municipalities in the GTA saw significant shortfalls of job growth relative to forecasted employment in the Growth Plan, ranging from 8% less than forecast in Simcoe/Barrie combined to 49% less than forecast in Durham Region.

Population growth in all municipalities other than the City of Toronto (+10% greater than forecast) and Peel Region (+4% greater than forecast) also saw shortfalls relative to forecasts, ranging from 3% less than forecast in Simcoe/Barrie to 19% less than forecast in Durham Region.

[2] The City was forecast to add 160,000 net new jobs by 2019, but added 289,000 net new jobs, or 81% higher than forecast.

The implications of a shortfall in population and/or employment growth on municipal finances is discussed in some detail later in this report.

1.4 CAVEAT

The information presented in this report is based on interpretation of various municipal policies, by-laws, rate schedules, etc. While every effort has been made to interpret these materials accurately, there can be no certainty that municipal stakeholders will apply their policies and rates in the same manner as presumed within the analysis contained in this report.

The data presented in this report is based on the latest data available as of the writing of the report. However, given the variety of types of data used, the most recent iteration of data may vary from one chart, table, or figure to the next. For example, as of the time of writing of this report, the Financial Information Return (FIR) data municipalities submit to the Ministry of Municipal Affairs was current as of 2019.[3] Additionally, when looking at how data has changed over time, where possible historic data is provided going back to 2009, but in certain instances, elements of current FIR reporting only became available more recently, and so in some cases the historic data shown does not extend back to 2009.

In some cases, there are municipalities with data available for the 2020 fiscal year. While the report focuses on the 2019 year given that is the year for which all municipalities have all data reviewed available, some of the updated data for 2020 is presented in Appendix A to this report.

[3] Some municipalities have a 2020 FIR available, but not all municipalities did as of the time of writing this report.

2 ANALYSIS OF DEVELOPMENT CHARGE REVENUES AND EXPENDITURES

This section of the report reviews the quantity of DC revenues and expenditures from each municipality's DC reserve fund, as well as the year-to-year balances in those reserve funds.

The actual DC revenues and expenditures are compared to projected amounts from the various municipal DC studies to understand whether there have been DC revenue shortfalls relative to forecast, with an overview of the causes of shortfalls (beyond the shortfalls in population and employment growth in most GTA municipalities), and whether similar shortfalls are evident in DC expenditures relative to forecasts.

This analysis can help readers understand whether anticipated revenue shortfalls are being met with disproportionate delaying or postponing of expenditures. Delaying capital expenditures and/or capital projects can have implications for the availability of infrastructure and servicing necessary to proceed with new housing development.

2.1 OVERVIEW OF DEVELOPMENT CHARGES

2.1.1 Municipal Development Charges

The *Development Charges Act* ("DC Act") grants authority to municipalities to enact a development charges ("DCs") by-law that imposes a charge against land to be developed where the development will increase the need for municipal services.

Municipal DCs collect funds for services deemed as being eligible in the DC Act such as Parks & Recreation, Libraries, Fire Services, Police Services, Water, Sewer, Roads, Transit, etc. Where there is both an upper-tier and lower-tier municipality, the services included in each respective municipality's DC by-law are based on which tier is the provider of each service.

Each of the lower-tier/single-tier municipalities reviewed in this report imposes DCs for a variety of services. Recent changes to the DC Act, via Bill 108 (More Homes, More Choice Act, 2019) and Bill 197 (COVID-19 Economic Recovery Act), expanded the list of services for which development charges

can be imposed. Bill 197 also removed the 10% statutory deduction for certain soft services that had previously been required under the *DC Act*.

2.1.2 Area-Specific Development Charges

Several of the municipalities reviewed in this report impose area-specific development charges ("ASDC"), which can result in varying DC rates depending on where a development is located within a jurisdiction:

- **Halton Region** – Halton Region imposes a higher DC rate for homes built in the greenfield area than those built within the Region's built boundary;
- **City of Barrie** – The City of Barrie imposes different DC rates for the parts of the City within the former City boundaries, and the Salem and Hewitt's Secondary Plan areas;
- **Town of Bradford West Gwillimbury** - The Town imposes different DC rates for the Bradford settlement area and the Bond Head settlement area. The rates displayed in the following section are based on the in-force rates in the Bradford settlement area; and
- **City of Markham** – The City of Markham imposes additional area-specific DC rates for homes built in certain areas within the City and levies them on a per hectare basis.

2.2 TRENDS IN DEVELOPMENT CHARGE RATES

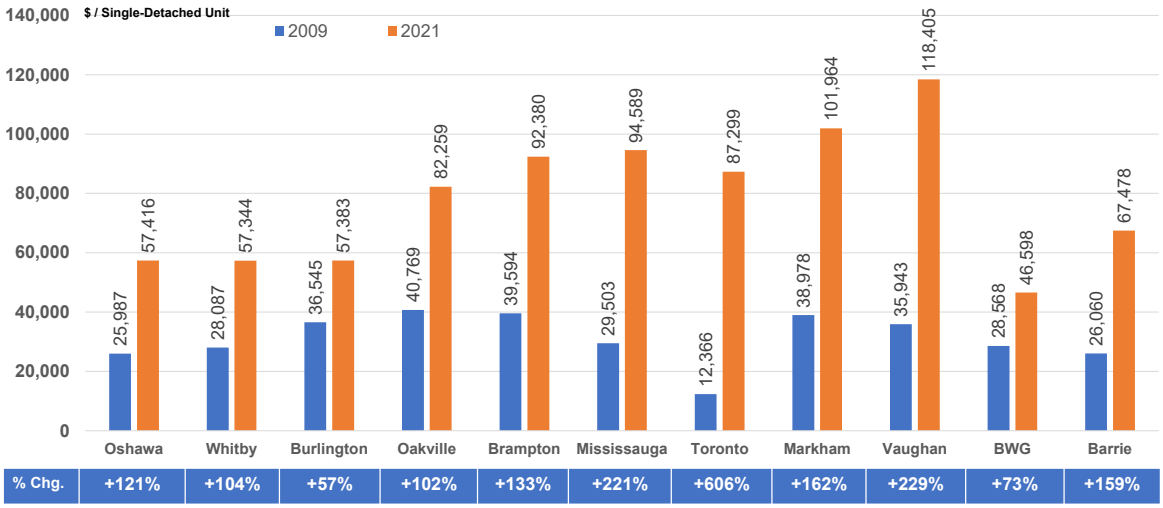
Over the 2009-2021 period, development charges in the Greater Toronto Area have increased significantly by an average of 152% for single-detached units ("SDU") in the studied municipalities, which equates to an annual average increase of 8.0% per year.

The average DC rate has increased from $31,500 per SDU in 2009 to $79,400 per SDU in 2021. The highest combined DC for a single-detached unit is in the City of Vaughan at over $118,400.

The highest DC rate increase seen since 2009 has been in the City of Toronto, where the DC rate for single-detached units increased by 606%, from $12,366 per SDU in 2009 to $87,300 per SDU in 2021. The DC rates increased by more than double in nine of the 11 municipalities studied (when combined with the applicable upper-tier DC rates)

Figure 4

Change in Development Charge Rates, GTA Municipalities, 2009-2021



Source: Altus Group Economic Consulting

Similar increases have been seen for other unit types – for example, average DC rates for apartment units have increased by approximately 125% since 2009.

2.2.1 What Municipal Services Do Development Charges Fund?

The DC Act, under section 2(4) allows for municipalities to levy a DC by-law for numerous services – this list of permitted services was expanded through Bill 197, however, this list largely formalizes the services that municipalities had already been collecting DCs for.

Former iterations of the DC Act were based on an 'ineligible' list that could not be included in a DC by-law (that included tourism facilities, landfills, cultural/entertainment facilities), with little other prescription for what could be included, so long as it was not a specified ineligible service.

Currently, the only services being recovered for in the municipalities studied in this report that are not explicitly set out as eligible services in section 2(4) of the DC Act are municipal parking services (currently charged for in Oshawa, Whitby, Oakville, Mississauga, Toronto, and Barrie), and airports (currently charged for in Barrie). These services will no longer be eligible to be collected through DC by-laws after September 18, 2022.

Figure 5

Development Charge Service Breakdown

Service	DC Act	Durham Region		Halton Region		Peel Region		Toronto	York Region		Simcoe County	Barrie
		Oshawa	Whitby	Burling.	Oakville	Bram.	Miss.		Markham	Vaughan	BWG	
Water Supply / Distribution	X	X	X	X	X	X	X	X	X	X	X	X
Wastewater Treatment / Sewers	X	X	X	X	X	X	X	X	X	X	X	X
Storm Drainage and Control	X	X	X	X			X	X	X	X		
Roads & Related (incl. Public Works)	X	X	X	X	X	X	X	X	X	X	X	X
Electrical Power Services	X											
Transit	X	X	X	X	X	X	X	X	X	X	X	X
Waste Diversion	X	X	X						X		X	
Police Services	X	X	X			X	X	X			X	X
Fire Services	X	X	X	X	X	X	X	X	X	X	X	
Ambulance / Paramedic	X	X	X			X	X	X			X	X
Libraries	X	X	X	X	X	X	X	X	X	X	X	X
Long Term Care	X	X	X			X	X				X	
Parks and Recreation	X	X	X	X	X	X	X	X	X	X	X	X
Public Health	X	X	X					X				
Child Care	X							X				
Housing Services	X	X	X			X	X	X			X	X
Provincial Offences Act	X											
Emergency Preparedness	X											
Parking		X	X		X		X		X			X
Airport	only permitted in Waterloo Region											X

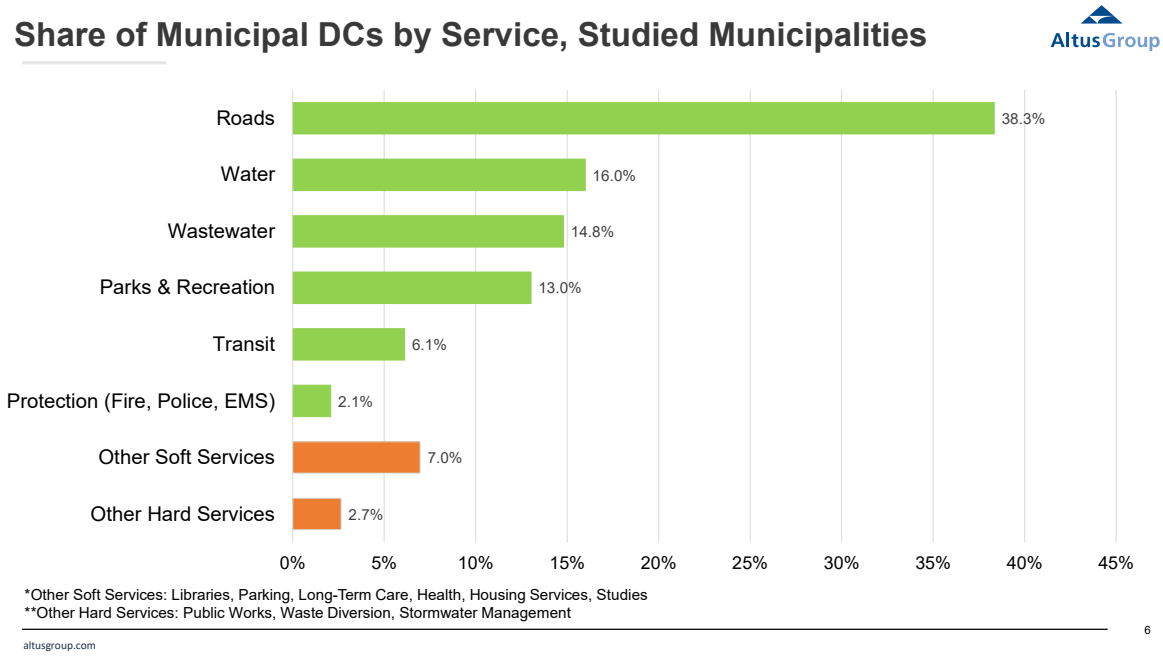
Source: Altus Group Economic Consulting based on Development Charges Act, various municipal DC by-laws

The services with the most significant charges are hard services (e.g. roads, water, wastewater, transit), however, the combined parks and indoor recreation services also represents a significant share of total DC rates in the studied municipalities. These five categories comprise approximately 90% of DC rates.

- The costliest service is Roads (and related services), which on average make up over 38% of municipal DC rates;
- Second largest is Water services, which makes up 16% of DC rates, and includes costs relating to both water supply and water distribution;

- Third largest is Wastewater services, which includes costs relating to wastewater treatment plants and wastewater collection networks, comprising nearly 15% of DC rates;
- Fourth largest is Parks and Indoor Recreation, which when combined make up 13% of DC rates. Often, Parks Development and Indoor Recreation are treated as separate services in DC by-laws, but for the purpose of this analysis they have been combined to allow for comparison between municipalities;
- Fifth largest is Transit, which on average comprises 6% of DC rates. Because of changes made to the *DC Act* in 2016, municipalities are now permitted to recover a greater proportion of transit capital costs than before by being able to recover costs above historic service levels. Transit DCs tend to vary significantly from one municipality to the next as some municipalities rely on DCs to fund expansions of systems incorporating multiple modes of service (subway, streetcar, LRT, bus), while other municipalities have relatively simple transit systems.

Figure 6



Many municipalities do not collect DCs for costs related to 'local' services, such as local roads (e.g. roads within the interior of a subdivision), local water or sewer mains (below a certain defined size threshold), local

neighbourhood parkland development, which would instead be funded directly by developers. The definition of 'local' work should be specified through a municipality's local service policies/guidelines, typically published within a municipality's DC background study.

The table below shows the range of DC rates for the five most significant DC services among the municipalities studied, as expressed per single-detached unit (or "per SDU").

The highest DC rates for hard services such as roads, water and wastewater are in Peel Region and York Region, respectively. The combined Roads DC applicable within the City of Vaughan, which includes City and Region charges, amounts to $58,380 per SDU. The most significant Parks & Recreation charges are $16,770 per SDU in the City of Mississauga, while the highest DC for transit services is imposed by the City of Toronto, at $33,200 per SDU.

Figure 7

Highest DC Rates for Hard Service DCs, Studied Municipalities

	Average DC Rate	Maximum DC Rate Imposed by Service	
		Rate	Municipality
Service	*$ / SDU*	*$ / SDU*	
Roads	31,136	58,380	Vaughan / York Region
Water	12,986	28,627	Peel Region
Wastew ater	12,029	21,078	York Region
Parks & Recreation	10,575	16,769	Mississauga
Transit	4,967	33,206	Toronto

Source: Altus Group Economic Consulting based on municipal DC by-law s and pamphlets

2.3 DEVELOPMENT CHARGE REVENUES AND EXPENDITURES

Figure 8 shows actual DC revenues and expenditures, as reported in the annual Financial Information Returns ("FIRs") that municipalities are required to submit yearly to the Ministry of Municipal Affairs and Housing.

In the aggregate, the studied municipalities spent an amount roughly proportionate to the DC revenues generated. Over the 2013-2019 period, the municipalities studied received an average of $1.49 billion per year in

revenues and spent an average of $1.43 billion per year from DC reserves, or 96% of annual revenues.

However, when the data is viewed by individual municipalities, there were several municipalities where annual expenditures exceeded revenues. In many of these cases (Peel Region, Barrie, York Region, Halton Region), it is those municipalities that are responsible for water supply and wastewater treatment infrastructure, which often have large up-front costs requiring debt financing to fund, with future DC revenues paying for annual debt charges.

Figure 8

Actual DC Revenues and Expenditures, 2013-2019, Annual Averages
Sorted by Expenditures as % of Revenues

	Annual Averages - 2013-2019		Expenditures as % of Revenues
	DC Revenues	DC Expenditures	
Municipality	*Dollars*		*Percent*
Markham	34,998,970	56,228,258	161%
Peel Region	261,080,168	364,673,957	140%
Barrie	24,004,526	30,781,073	128%
York Region	280,874,223	314,057,483	112%
Halton Region	173,170,535	187,452,469	108%
Burlington	4,642,225	4,762,388	103%
Bradford West Gwillimbury	15,924,985	15,604,687	98%
Simcoe County	19,971,562	19,114,183	96%
Brampton	89,950,810	84,013,467	93%
Oshawa	8,839,253	7,384,629	84%
Mississauga	34,451,182	25,587,257	74%
Oakville	30,390,428	20,652,655	68%
Toronto	340,337,391	217,009,920	64%
Durham Region	96,299,871	53,978,984	56%
Whitby	9,522,965	4,596,546	48%
Vaughan	65,382,988	23,807,129	36%
Total	1,489,842,082	1,429,705,085	96%

Note: Annual revenues include interest earnings/costs. Amounts also include debt proceeds and charges
Source: Altus Group Economic Consulting based on annual Financial Information Returns

In many other municipalities, DC expenditures made per year fell significantly short of DC revenues generated per year. For example, the City of Toronto received $340 million in DC revenues per year over the 2013-2019 period but spent only $217 million (or just 64% of annual revenues). There may be reasons for this disparity in some municipalities, including project delays and/or cancellations, or possibly 'saving' of funds for large expenditures in the future, rather than relying on debenture financing.

2.4 COMPARISON OF ACTUALS VS. PROJECTED

2.4.1 DC Revenues

Figure 9 shows how the projected DC revenues (from municipal DC studies) compare with actual DC revenues received over the 2013-2019 period. While the DC studies in the studied municipalities projected $16.4 billion in DC revenues (or $2.35 billion per year), municipalities received $10.4 billion (or $1.49 billion per year), equating to a shortfall in anticipated funding of approximately $6.03 billion over the 2013-2019 period. Of the 16 municipalities studied, just one saw DC revenues exceed 90% of projections (Bradford West Gwillimbury).

Figure 9

Comparison of Projected and Actual DC Revenues, 2013-2019
Sorted by Actual as % of Projected

Municipality	Projected Revenues	Actual Revenues	Actual as % of Projected
	Dollars		*Percent*
Bradford West Gwillimbury	113,490,645	111,474,894	98%
Vaughan	540,191,500	457,680,918	85%
Barrie	199,811,567	168,031,679	84%
Simcoe County	179,351,000	139,800,933	78%
Oakville	275,411,114	212,732,998	77%
Toronto	3,100,627,271	2,382,361,736	77%
Halton Region	1,720,740,170	1,212,193,742	70%
Oshawa	90,221,565	61,874,770	69%
Burlington	48,286,641	32,495,575	67%
Mississauga	373,253,000	241,158,275	65%
Brampton	1,027,331,289	629,655,671	61%
York Region	3,235,446,369	1,966,119,560	61%
Peel Region	3,117,383,154	1,827,561,179	59%
Whitby	130,635,336	66,660,757	51%
Markham	502,356,550	244,992,793	49%
Durham Region	1,802,492,887	674,099,094	37%
Total	16,457,030,058	10,428,894,574	63%

Source: Altus Group Economic Consulting

2.4.1.1 Causes for DC Revenue Shortfalls

There are numerous causes for the shortfall in actual DC revenues relative to projections, including the following:

- Underperformance of residential development relative to forecasts in municipal plans (this was the case in all studied municipalities except the City of Toronto and Peel Region);

- Significant shortfalls in non-residential development relative to forecasts in municipal plans (in all municipalities except City of Toronto);
- Intensified use of existing structures that brings net new population or job growth without a corresponding increase to DC revenues, such as:
    - Increases to household sizes,
    - Increased work from home employment
    - Existing office space usage being made more efficient to accommodate more jobs, rather than seeing a corresponding increase in office construction;
- Statutory exemptions, discounts or rebates as set out in the DC Act, for certain institutional uses like elementary schools, hospitals, places of worship, etc., for the enlargement of existing industrial building (50% or less), exemptions/discounts for office space, secondary dwelling units, etc.;
- Non-Statutory exemptions that include discounts, rebates, or exemptions provided to incentivize certain types of development.

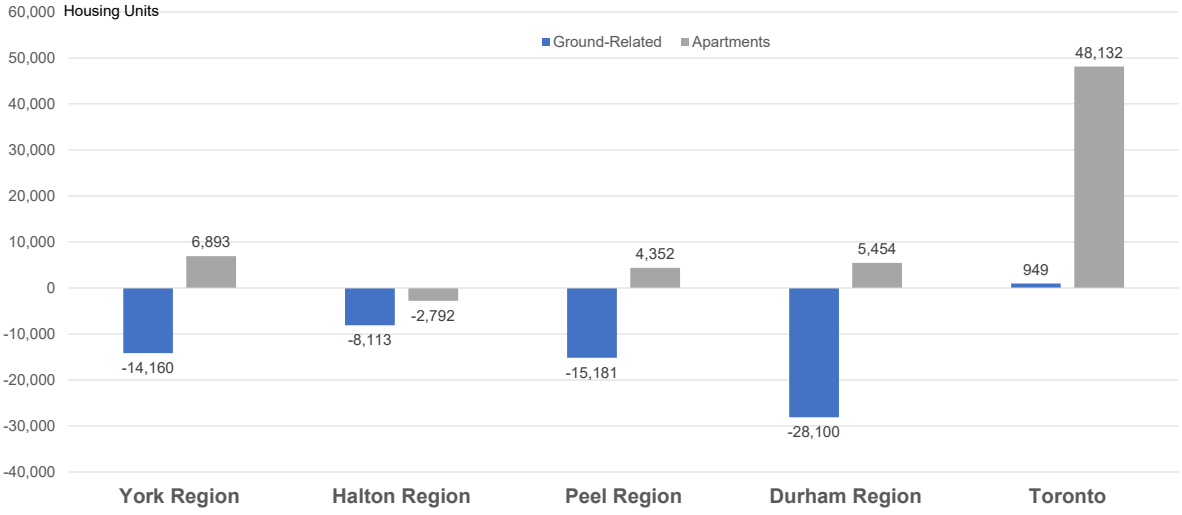
The DC Act does not allow for the cost of any exemptions, discounts or rebates to be made up through higher DC rates for other non-exempt forms of development. Instead, DC reserve funds are meant to be made 'whole' by non-DC sources of funding provided to ensure that future development does not indirectly fund the cost of exemptions.

The graph below shows how the actual number of housing starts in the four regions and the City of Toronto have compared to the amount of housing units forecast in DC studies from the 2008-2010 period. Each of the four regions saw a significant shortfall in ground-related housing units relative to forecast, ranging from a 8,110-unit shortfall in Halton Region, to a 28,100-unit shortfall in Durham Region.

As the forecasted housing units by type are used to forecast DC revenues, any housing supply shortages caused by lengthy municipal processes, planning application related appeals, servicing issues, can have direct impacts on a municipality's ability to meet DC revenue forecasts.

While there was a shortfall in ground-related housing units relative to forecast, the shortfall in ground-related housing units was not offset by significant surpluses in apartment units to bring overall municipal DC revenues back to forecast.

Figure 10 **Difference in Housing Starts vs. DC Study Forecasts, 2013-2020, GTA Regions and City of Toronto**



Source: CMHC Data, Various Municipal DC Background Studies

Details regarding how single-tier and upper-tier municipalities have grown compared to forecasts from the Growth Plan are provided in Appendix B to this report, providing context behind development-shortfalls contributing to DC revenue shortfalls relative to forecast.

Peel Region has studied the sources of their DC revenue shortfalls and found that compared to the Region's 2015 DC Study, the residential DC revenues were 83% of forecast, while non-residential DC revenues were just 60% of forecast.[4]

The Region attributes the reasons for the shortfalls in each sector:

> Residential DC revenue shortfall is attributed to lower than forecasted construction of single and semi-detached housing
>
> Non-residential DC revenue shortfall [is] in part due to lower than forecasted activities in office developments and partially due to the changing nature of employment.

[4] Peel Region, Peel's Growth Management Program & Development Charge Performance – 2019

The Region's report notes that continued shortfalls "increases the Region's debt risk" and "may result in additional pressure on future tax and rate funding sources."

2.4.2 DC Expenditures

Figure 11 shows how the projected DC expenditures in municipal DC studies compares with actual DC expenditures made over the 2013-2019 period. While the DC studies projected $16.1 billion in DC expenditures (or $2.30 billion per year), municipalities spent only $10.0 billion (or $1.43 billion per year), which equates to only 62% of projections, or approximately $6.1 billion short of projections.

Only four municipalities spent more than 70% of the amount projected in their DC studies, including Peel Region, York Region and the City of Barrie, all of whom are responsible for water and wastewater services in their respective jurisdictions.

Several municipalities spent less than half of their projected DC expenditures, including Oshawa (43% of projections), Toronto (41%), Vaughan (29%), Durham Region (26%), and Whitby (14%).

Figure 11

Comparison of Projected and Actual DC Expenditures, 2013-2019
Sorted by Actual as % of Projected

Municipality	Projected Expenditures	Actual Expenditures	Actual as % of Projected
	Dollars		*Percent*
Bradford West Gwillimbury	101,344,385	109,232,809	108%
Peel Region	2,591,948,329	2,552,717,700	98%
Barrie	238,512,179	215,467,509	90%
York Region	2,597,420,635	2,198,402,379	85%
Halton Region	1,901,791,426	1,312,167,283	69%
Burlington	48,899,472	33,336,717	68%
Markham	656,991,065	393,597,808	60%
Oakville	255,180,743	144,568,586	57%
Mississauga	318,867,700	179,110,799	56%
Simcoe County	240,768,490	133,799,283	56%
Brampton	1,072,502,100	588,094,266	55%
Oshawa	119,169,404	51,692,405	43%
Toronto	3,711,723,047	1,519,069,437	41%
Vaughan	573,985,915	166,649,906	29%
Durham Region	1,435,963,773	377,852,890	26%
Whitby	234,176,536	32,175,819	14%
Total	16,099,245,199	10,007,935,596	62%

Source: Altus Group Economic Consulting

2.5 DC SPENDING AS PROPORTION OF RESERVE FUND BALANCE

The forthcoming Community Benefits Charge system will require municipalities "spend or allocate" 60% of funds that are in the CBC reserve fund at the start of the year. There is no such requirement in the *Development Charges Act* or associated regulations.

Based on a review of what proportion of DC reserve fund balances are spent using typical DC expenditures and 2019 DC reserve fund balances, the average DC expenditures represent approximately 47% of DC reserve fund balances, though this metric can vary significantly from one municipality to the next, particularly those without large DC reserve fund balances (Simcoe County, Barrie, Peel Region).

Figure 12

DC Expenditures (Last Three Years) as % of 2019 DC Reserve Fund Balance

Municipality	Average Annual Expenditures (2017-2019)	DC Reserve Fund Balance (2019)	Spending as % of DC RF Balance
		Dollars	
Toronto	313,776,365	1,223,314,054	26%
Peel Region	333,895,562	(122,578,797)	n.a.
Mississauga	37,261,018	182,734,591	20%
Brampton	59,762,299	160,568,259	37%
Halton Region	187,559,503	57,215,950	>100%
Oakville	21,811,092	80,472,790	27%
Burlington	3,717,353	28,605,758	13%
Durham Region	68,533,265	695,922,041	10%
Whitby	6,312,304	109,036,901	6%
Oshawa	7,879,477	56,521,549	14%
York Region	350,330,258	269,957,121	>100%
Markham	31,354,296	38,412,156	82%
Vaughan	33,305,154	482,519,449	7%
Simcoe County	21,313,340	1,597,622	>100%
Bradford West Gwillimbury	16,018,899	2,485,360	>100%
Barrie	41,076,215	(12,626,352)	n.a.
Total	1,533,906,401	3,254,158,452	47%

Note: Source for Peel Region DC RF balances are annual DC Reserve Fund Statements, as FIRs for Peel Region do not provide necessary information
Source: Altus Group Economic Consulting based on annual Financial Information Returns

Some municipalities spend significantly more than 100% (Halton Region, York Region, Simcoe County, BWG), while others that have a DC reserve fund deficit continue to spend DC funds (Peel Region, Barrie).

Others with significant DC reserve fund surpluses, such as Brampton (37%), Oakville (27%), Toronto (26%), Mississauga (20%), Oshawa (14%), Vaughan (7%) Whitby (6%) spend relatively small amounts relative to balances in their DC reserve fund amounts.

2.6 EXAMPLES OF DELAYED PROJECTS

There are numerous reasons why DC expenditures may be less than projected in DC studies, including:

- Capital projects frequently are delayed, cancelled, or modified;
- Political priorities or desires for certain projects can change over time,
- Municipalities can be reluctant to take-on additional debt to front-end finance large infrastructure projects given provincial debt limits, etc.

However, one downside to delaying projects is that capital costs for the works can increase significantly while the project is waiting for funds to be spent.

There are numerous examples of significant capital projects appearing in numerous DC background studies over a long period of time. However, for two examples of projects that have seen delays and associated cost increases from the delayed timing:

- The Town of Georgina's Multi-Purpose Recreation Complex first appeared in the Town's 2010 DC Study with a timing of 2016 and a gross cost of $25.0 million, is now contained within the Town's 2021 DC Study with a revised timing of 2022 and a gross cost of $38.1 million;
- The City of Toronto's project to add a second platform at Union Station appeared in all of the City's DC studies between 1999 and 2018, with project costs increasing from $58 million in the 1999 DC Study to $138 million in the 2018 DC Study.

While delaying projects provides municipalities with some temporary budgetary relief, delaying projects inevitably results in construction cost

escalation, offsetting any temporary budgetary relief the municipality may receive if the ultimate capital cost of the work increases and the infrastructure itself is necessary to construct.

The long-term benefit of delaying capital projects for needed community infrastructure is minimal and only results in an under-supply of facilities and amenities need by both existing and new residents of a community.

2.7 RESERVES AND RESERVE FUNDS

Over the 2013-2019 period, just over half of the municipalities studied saw increases to DC reserve fund balances, with 14 of the 16 municipalities having positive balances in their DC reserve funds as of 2019.

The amounts reported in Figure 13 aggregates the balances for all DC reserve funds maintained by a municipality - however, within the aggregate amount displayed, there may be a mix of service-specific DC reserve funds that are in a deficit position and others in a surplus position.

The reserve fund balances can fluctuate significantly from year-to-year for a variety of factors, including:

- Influx of funds from debt issuance, which can provide a one-time boost to the available cash balance in the reserve fund;
- Significant annual debt charges in the years following the debt issuance; and
- Committed funding for specific projects, which may lead to a significant build-up of cash balances but in actuality means that part of the positive cash balance is 'spoken for' and not necessarily available for funding other capital works.

Figure 13

Change in Development Charge Reserve Fund Balances, 2013-2019, Selected Municipalities

	DC Reserve Fund Balance (excl. Committed Funding)		
	2013	2019	Change 2013-2019
Municipality		*Dollars*	
Toronto	383,801,180	1,223,314,054	839,512,874
Peel Region	227,769,840	(122,578,797)	(350,348,637)
Mississauga	176,630,532	182,734,591	6,104,059
Brampton	(231,182,948)	160,568,259	391,751,207
Halton Region	241,536,214	57,215,950	(184,320,264)
Oakville	2,299,486	80,472,790	78,173,304
Burlington	31,645,192	28,605,758	(3,039,434)
Durham Region	399,055,041	695,922,041	296,867,000
Whitby	65,275,234	109,036,901	43,761,667
Oshawa	22,386,133	56,521,549	34,135,416
York Region	324,561,927	269,957,121	(54,604,806)
Markham	38,405,743	38,412,156	6,413
Vaughan	181,073,554	482,519,449	301,445,895
Simcoe County	995,378	1,597,622	602,244
Bradford West Gwillimbury	5,133,634	2,485,360	(2,648,274)
Barrie	37,228,317	(12,626,352)	(49,854,669)
Total	1,906,614,457	3,254,158,452	1,347,543,995

Note: Source for Peel Region DC RF balances are annual DC Reserve Fund Statements, as FIRs for Peel Region do not provide necessary information

Source: Altus Group Economic Consulting based on annual Financial Information Returns

2.7.1 DC Reserve Fund Balances and Committed Funding

In many municipalities, DC reserve fund statements show "committed" funding for projects over a capital budgeting horizon. In the case of the City of Toronto, the DC reserve fund statement also reports on a five-year sum of committed and Council-approved capital funding. In these cases, the balance of the reserve fund, when compared to the amount and timing of committed funding can provide an indication of the relative scale of reserve balances, in terms of 'years reserve' of DC funding.

Using the City of Toronto as an example, as of their 2019 DC Reserve Fund Statement, the DC reserve fund balance of $1.22 billion was more than

enough to fund the entirety of the 5-year DC capital funding commitments of $1.15 billion, with an additional $75 million left over plus any DC revenues received over that five-year period to build the reserve fund balance back up.

Figure 14

Year-by-Year Change in DC Reserve Fund Balance and 5-Year DC Funding Commitments

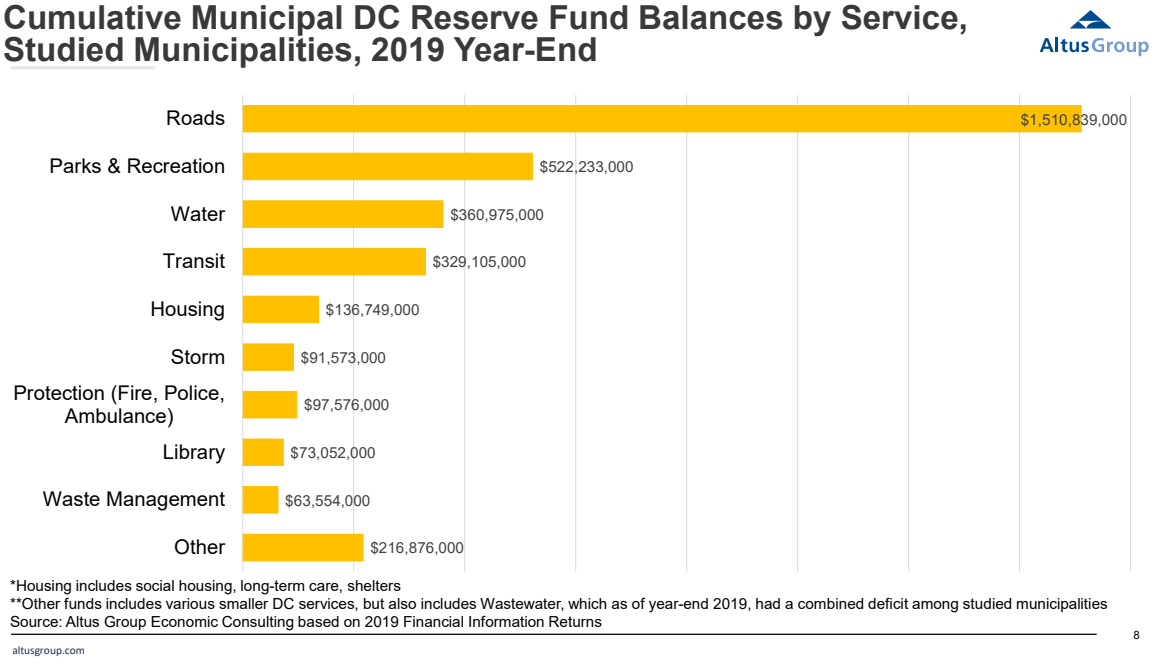
Year	Cash Balance	5-Year Commitments (Approved by Council)	Council Approved Commitments (per year)	Years of DC Spending in Reserve	In-Year Funding/Expenditures: Revenues	In-Year Funding/Expenditures: Expenditures	In-Year Revenue Surplus / (Deficit)
		Dollars (000)		*Years*		*Dollars (000)*	
2010	261,297	248,027	49,605	5.27	90,172	44,938	45,234
2011	311,314	284,646	56,929	5.47	131,930	81,914	50,017
2012	369,599	300,097	60,019	6.16	153,927	96,885	57,042
2013	378,227	547,421	109,484	3.45	171,020	162,392	8,628
2014	523,654	727,313	145,463	3.60	272,372	126,945	145,428
2015	629,955	817,347	163,469	3.85	273,711	167,411	106,300
2016	681,861	1,063,352	212,670	3.21	171,292	119,385	51,907
2017	643,011	1,098,771	219,754	2.93	242,784	281,634	(38,850)
2018	1,146,265	1,961,837	392,367	2.92	771,652	279,033	492,619
2019	1,223,314	1,147,598	229,520	5.33	467,347	387,253	80,095

Source: City of Toronto Annual Development Charge Reserve Fund Statements, 2010-2019

2.7.2 DC Reserve Fund Balances by Service

Of the $3.25 billion combined surplus in DC reserve funds in studied municipalities, over $1.5 billion is within various municipal "Roads" DC reserve funds, with another $522 million in "Parks and Recreation" reserve funds.

Figure 15



There are substantial amount of funds also in DC reserve funds for Water ($361 million), Transit ($329 million), and Housing ($137 million, which includes funds for social housing, long-term care and shelters).

The table below shows the largest DC reserve fund balances by specific DC services. The largest DC reserve fund balances for roads is held by York Region at $383 million, with the City of Vaughan also having $294 million in DC reserve funds for new roads. For combined water/wastewater services, Durham Region has the highest DC reserve fund surplus of approximately $462 million.

Figure 16

Largest Service-Specific DC Reserve Fund Balances by Municipality, 2019 Year-End Balances

	Largest		Second Largest		Third Largest	
	Municipality	Amount	Municipality	Amount	Municipality	Amount
Service		*Dollars*		*Dollars*		*Dollars*
Roads	York Region	383,167,087	Vaughan	294,940,930	Durham Region	191,378,123
W/WW	Durham Region	462,091,262	Toronto	206,563,491	Halton Region	11,258,441
Parks & Recreation	Toronto	234,948,709	Vaughan	162,158,293	Brampton	94,494,185
Transit	Toronto	297,247,829	York Region	28,078,938	Durham Region	17,186,492
Storm	Toronto	37,953,497	Mississauga	33,345,597	Burlington	6,319,393
Housing	Toronto	110,112,623	York Region	26,944,104	Peel Region	2,878,683

Source: Altus Group Economic Consulting based on Municipal Financial Information Return data

The City of Toronto has the highest balance among the four other major DC services of Parks & Recreation ($234 million surplus), Transit ($297 million surplus), Storm ($38 million surplus) and Housing ($110 million surplus).

2.8 CONCLUSIONS

Based on the analysis presented of municipal DC rates, revenues, expenditures and reserve funds, the key findings are:

- Since 2009 DC rates have increased significantly, with the average DC rate for a single-detached unit growing from $31,500 in 2009 to $80,600 in 2021, an average increase of 156%.
- The most significant component of municipal DCs is cost recovery for hard services. The costs for roads, water and wastewater combine to comprise approximately 70% of the average DC rate imposed, while parks development, indoor recreation and transit services also make up significant portions.
- Overall, in the aggregate, the amount of DC expenditures over the 2013-2019 period closely matches the amount of DC revenues, with actual average annual revenues of $1.49 billion and average annual

expenditures of $1.43 billion. However, there are significant disparities when the data is viewed by individual municipality.

- Compared to projections made in DC background studies, there was a significant shortfall compared to both forecasted revenues and expenditures. Overall, compared to forecasts in DC studies, over the 2013-2019 period, there was an overall a shortfall of $6.0 billion of DC revenues compared to revenue projections and a similarly sized shortfall in DC expenditures compared to expenditure projections.
- Municipalities have built-up significant amounts of reserve funds, with the studied municipalities having a total of $3.25 billion in DC reserve funds as of year-end 2019. Most municipal DC reserve funds (as a whole) are in a surplus position.
- The municipalities that have had the greatest gap in actual expenditures relative to projections have generally seen significant growth in DC reserve fund balances.
- The $3.25 billion in DC reserve fund surplus includes over $1.5 billion in unspent DC funds for Roads, $522 million for Parks & Recreation, $361 million for Water, $329 million for Transit, and $137 million for Housing services.
- Those municipalities with significant DC reserve fund balances are falling behind in providing the community infrastructure that recently constructed housing units and their residents need for a complete community and delays in constructing amenities such as park development, recreation facilities, transit improvements, storm water management improvements, that have been funded by new development may result in existing communities not sharing in the benefit they receive from growth-funded infrastructure.

3 ANALYSIS OF PARKLAND CASH-IN-LIEU REVENUES AND EXPENDITURES

This section of the report looks at parkland cash-in-lieu ("CIL") revenues by year to understand how much funding for parkland acquisition is being generated by new housing development each year.

An examination of annual revenues and expenditures is also undertaken to better understand whether municipalities are spending parkland CIL funds on land acquisition and development-specific projects as development happens, or are generally 'saving' parkland CIL money for large land acquisitions or parkland projects (such as Toronto's Rail Deck project)

In addition, where data and information are available, the types of expenditures municipalities are making with parkland CIL funds is reviewed to understand the size, scale, and appropriateness of the spending being done.

3.1 OVERVIEW OF CASH-IN-LIEU OF PARKLAND DEDICATION

Although Bill 108 (passed in June 2019) was intended to alter how municipalities collected funds for parkland acquisition, the recently passed Bill 197 (given assent in July 2020) instead restored most of the current parkland dedication / parkland CIL system.

Currently municipalities acquire parkland and other forms of open space through parkland dedication requirements imposed on new developments. Alternatively, a landowner can provide funds in lieu of parkland dedication to a municipality where physical land dedication is not possible to incorporate into the development.

The *Ontario Planning Act* (the "Planning Act") says that as a condition of development or redevelopment of land, land in an amount not exceeding 5% of a development site area can be conveyed to the municipality for park or other public recreational purposes. Alternatively, for residential developments, the land conveyed to the municipality may also be provided at a rate of 1 hectare per 300 dwelling units.

The *Planning Act* also says that in lieu of providing the land for parks to the municipality, the developer may instead provide a payment to the municipality in the amount of the value of the land to be conveyed, at a rate

not to exceed 1 hectare per 500 dwelling units. The value of the land is determined as the value on the day before approval of a draft plan of subdivision.

The statutory parkland rates are used in many municipalities studied in this report when land is not provided via dedication. The summary below provides examples of the methods some municipalities use in imposing parkland dedication requirements when cash-in-lieu of parkland is relied upon instead of dedication:

- **Fixed per unit / per hectare rate:**
    - City of Vaughan imposes a fixed per unit rate of $8,500 per high-density unit;
    - The City of Brampton, for non-high-density developments, calculates the CIL payment based on the quantity of land that would have been dedicated using a fixed per-acre land value that differs depending on the housing unit type being proposed;
    - City of Mississauga imposes a per unit fee of $10,100 for medium- and high-density developments;
    - City of Oshawa imposes alternative parkland CIL rates for dwellings outside of subdivision plans, ranging from $1,550 to $7,440 per unit, depending on the unit type;
    - City of Barrie imposes a CIL rate of $5,726 per unit for units in medium- and high-density developments;
- **Capped Percentage**:
    - City of Toronto currently limits CIL to 10%, 15% or 20%, depending on the size of the site;
- **Combination of Fixed Per Unit Rate & Capped Percentage**:
    - City of Brampton imposes a fixed per unit rate of $4,288 per high-density unit, capped at 10% of the value of land;
- **Uncapped**:
    - Town of Bradford West Gwillimbury, Town of Whitby, Town of Oakville, Town of Milton and City of Markham do not apply caps on CIL payments from medium or high-density

developments, whether in the form of a per unit rate, a percentage cap, or a combination thereof.

3.2 AVERAGE ANNUAL REVENUES AND EXPENDITURES

In most municipalities, recent trends have seen average annual revenues significantly exceed expenditures. In aggregate, over the 2015-2019 period, the studied municipalities have received an annual average of $193.3 million per year in parkland CIL funds, and have spent $107.7 million per year, or just 56% of revenues received.

Of the studied municipalities, only the Town of Oakville has spent more parkland CIL funds than what was received over the 2015-2019 period. All other municipalities have seen expenditures fall behind revenues.

Figure 17

Annual Average Parkland CIL Revenues and Expenditures, GTA Municipalities, 2015-2019

	Annual Averages - Last Five Years (2015-2019)		
	Revenues	Expenditures	Expenditures as % of Revenues
Durham Region	*Dollars*		*Percent*
Oshawa	n.a.	n.a.	n.a.
Whitby	n.a.	n.a.	n.a.
Halton Region			
Burlington	1,302,821	208,448	16%
Oakville	9,225,779	9,654,193	105%
Peel Region			
Brampton	12,524,482	3,944,184	31%
Mississauga	17,519,366	9,208,096	53%
Toronto	120,677,996	69,121,842	57%
York Region			
Markham	15,081,060	3,468,770	23%
Vaughan	13,635,039	11,347,971	83%
Simcoe County			
Bradford West Gwillimbury	202,467	-	0%
Barrie	3,174,647	696,694	22%
Total	193,343,658	107,650,199	56%

Source:
Altus Group Economic Consulting based on Financial Information Return data

The imbalance between revenues and expenditures could in some cases be due to some municipalities 'saving up' for large parkland acquisitions. However, the effect of this is that a significant amount of money that could be used to provide public amenities to new and existing residents of municipalities is effectively being stranded for long periods of time and building up into large surpluses in CIL reserve funds (as shown in the following section of this report).

3.3 RESERVE FUND BALANCES

Over the 2009-2019 period, the balance in parkland CIL reserve funds have increased significantly in most municipalities studied, with the aggregate amount of CIL funds increasing from $375 million in 2009 to $1.48 billion in 2019, an increase of 294%. Of the $1.1 billion in additional parkland CIL funds, most of the dollar value increase is from the increase to the City of Toronto's CIL reserve fund, which has increased by $815 million since 2009.

Figure 18

Change in Parkland Cash-in-Lieu Reserve Fund Balances, GTA Municipalities, 2009-2019

	Reserve Fund Balances - Parkland CIL			
	2009	2019	Change 2009-2019	% Change 2009-2019
Durham Region		*Dollars*		*Percent*
Oshawa	705,897	1,261,656	555,759	79%
Whitby	1,954,990	8,431,972	6,476,982	331%
Halton Region				
Burlington	7,130,871	16,636,186	9,505,315	133%
Oakville	15,226,684	35,596,055	20,369,371	134%
Peel Region				
Brampton	16,664,778	98,039,594	81,374,816	488%
Mississauga	55,056,235	132,956,080	77,899,845	141%
Toronto	219,291,142	1,034,737,470	815,446,328	372%
York Region				
Markham	10,929,696	59,165,301	48,235,605	441%
Vaughan	45,446,405	72,544,521	27,098,116	60%
Simcoe County				
BWG	712,651	1,727,843	1,015,192	142%
Barrie	2,325,194	17,304,300	14,979,106	644%
Total	375,444,543	1,478,400,978	1,102,956,435	294%

Source: Altus Group Economic Consulting based on Financial Information Return data

Over the 2009-2019 period, while parkland CIL reserve fund balances have increased by nearly 300%, the continuing escalation of land values over the same period effectively diminishes much of the purchasing power of the funds kept in CIL reserves.

The funds in CIL reserves amount to funding generated by new housing whose new residents have yet to see the benefit of the amenities that they have provided funding for. For example, the increased CIL reserve fund balance when expressed per housing start over the same 2009-2019 provides an indication of the value of parkland or parkland amenities funded by each new residential units but not yet provided. In some municipalities, the increase to the Parkland CIL balance over the 2009-2019 period equates to over $4,000 of unexpended funds per housing start during that same period of time.

Figure 19

Change in Parkland Cash-in-Lieu Reserve Fund Balances, GTA Municipalities, 2009-2019

	Change in Reserve Fund Balance (2009-2019)	Housing Starts (2009-2019)	Net Change in Reserve Fund Balance per Additional Housing Unit
Durham Region	*Dollars*	*Units*	*Dollars / Unit*
Oshawa	555,759	8,639	64
Whitby	6,476,982	5,857	1,106
Halton Region			
Burlington	9,505,315	7,322	1,298
Oakville	20,369,371	14,140	1,441
Peel Region			
Brampton	81,374,816	36,109	2,254
Mississauga	77,899,845	20,772	3,750
Toronto	815,446,328	192,301	4,240
York Region			
Markham	48,235,605	25,037	1,927
Vaughan	27,098,116	25,216	1,075
Simcoe County			
Bradford West Gwillimbury	1,015,192	4,678	217
Barrie	14,979,106	5,292	2,831

Source: Altus Group Economic Consulting based on Financial Information Return data

One strategy that some municipalities could utilize to better match revenues with expenditures and more effectively realize the value of parkland funds

received is, where possible, undertake strategic acquisitions of land so that a significant proportion of parkland is pre-purchased before an area is designated for growth. This would enable the municipalities to take advantage of a period in time where land values are significantly lower than they otherwise would be later on in the planning process.

Prior to adoption official plan policies that contain specific policies dealing with the provision and acquisition of parkland, the *Planning Act* requires municipalities undertake a "Parks Plan" that examines the need for parkland in the municipality. When determining the need for additional parkland in a municipality, these Parks Plans should account for the amount of money in the municipal parkland CIL reserve fund to only determine what the 'net' amount of CIL funds would be required going forward used as the basis for setting parkland dedication/CIL rates to be imposed on new development. This approach would be consistent with how municipal DC background studies incorporate existing reserve fund balances into the need for net new funding.

3.4 EXAMPLES OF PARKLAND CASH-IN-LIEU RESERVE FUND EXPENDITURES

3.4.1 Oakville

Over the 2016-2019 period, the Town of Oakville has used its parkland CIL reserves on a mixture of land acquisitions and miscellaneous park improvements (e.g. playground structures and recreation buildings). The most recent prominent purchases being nearly $16.7 million spent on the acquisition of the Deerfield Golf Club, and another approximately $2.7 million for the procurement of a surplus site from the Halton Catholic District School Board.

3.4.2 Vaughan

Over the 2016-2019 period, the City of Vaughan has used its parkland CIL reserves primarily for various land acquisitions as well as minor parkland development projects.

The City's parkland CIL balance at the end of 2019 was $72.5 million, up from $68.1 million in 2016. Over the four-year period, the City received $62 million in revenues, including interest earnings, while spending $55.8 million, almost all of which was for land acquisition purchases.

3.4.3 Mississauga

Based on the City's annual treasurer's statements, some of the projects for which the City has spent parkland CIL funds include land acquisitions in Downtown Cooksville, Cooksville Creek, and Credit River Valley. The City also funded $5.7 million towards the Meadowvale Library / Community Centre.

As of the end of 2019, the City's parkland CIL reserve fund balance was $122.3 million, nearly double what it was in 2016 at $65.8 million. Over the 2016-2019 period, the City received nearly $66 million in CIL contributions, while spending only $43 million. As well, over the 2016-2019 period, the City accrued nearly $28 million in interest earnings within the CIL reserve fund from its substantial reserve fund balance.

3.5 BEST PRACTICES

3.5.1 North Park, Town of Oakville

Located at the intersection of Dundas St W and Neyagawa Blvd in the Town of Oakville, the 192 acres (77 hectares) of parkland that comprise the North Park was purchased by the Town in 1991 for approximately $6.6 million (or about $34,000 per acre). Over 75% of the cost of the purchase in 1991 was facilitated by fees paid for by new development.[5]

The planning process for the lands within the Town located north of Dundas Street West, known as "North Oakville", took a significant amount of time in the years after the parkland purchase, with development of housing in the area only beginning after 2010.

Since the purchase of the North Park land in 1991, land costs in Oakville have risen significantly. According to the land value assumptions used in the 2009 Education Development Charge Background Study for the Halton-area school boards ("Halton 2009 EDC Study"), the value of residential land in the area in the period that North Oakville were 1600% higher than when the Town had acquired the land 20 years earlier.

[5] See Town of Oakville By-law 1991-171

Figure 20

North Park Area, Town of Oakville, 2004 to 2019



Source: Altus Group Economic Consulting based on Google Maps

Had the Town waited to purchase the parkland in the area at a time closer to when development of new housing was initiated, the Town would have paid substantially more.

Using the land values from the Halton 2009 EDC Study, the cost of the land acquisition in 2009 or 2010 would have been approximately $115 million, or $108.6 million more than actually spent when the lands were acquired in 1991.

Figure 21

Estimated Savings in Parkland Acquisition Costs, North Park, Town of Oakville

Year (Event)	Site Size *Acres*	Price Per Acre *$ / Acre*	Total Cost / Value *Dollars*
1991 (Year of Acquisition)	192	34,375	6,600,000
2010 (Year of Development)	192	600,000	115,200,000
Change		565,625	108,600,000
% Change		1645%	1645%

Note: All dollar amounts are expressed in nominal terms, and so do not account for inflation

Source: Altus Economic Consulting based on 2009 HDSB/HCDSB EDC Study

3.5.2 Bram East Community Park, City of Brampton

Located northwest of the intersection of The Gore Road and Castlemore Road in the City of Brampton, the Bram-East Community Park provides regional recreational facilities and activities to both the Bram East community, as well as future residential development within the Highway 427 Industrial Secondary Plan, which is planned to be developed with a mixture of low-, medium-, and high-density residential uses.

The City acquired the lands for the Bram-East Community Park in September 2008, purchasing 140 acres of land from a developer/landowner that had originally intended to use the land to develop housing on the site. The newly acquired land was added to an existing inventory of 100 hectares of nearby parkland that the City had already owned, creating one of Brampton's largest community parks.[6]

Part of the lands acquired (16 acres) were later sold in 2012 and used for the ErinOakKids medical facility at the corner of The Gore Road and Castlemore Road.[7]

Figure 22

Bram-East Community Park, City of Brampton



Source: Altus Group Economic Consulting based on Google Maps

[6] Nova Res Urbis, Greater Toronto Area Edition, September 17, 2008.

[7] See Bylaw 204-2012

According the City's 2017 Parks and Recreation Master Plan, the recreation planning area ("RPA") that covers this part of the City is expected to have a surplus of Community Park lands equating to approximately 9.9 hectares by 2031, even after accounting for anticipated growth in the RPA.

Given the challenges municipalities can have in acquiring parkland, and particularly so in preferred locations, the acquisition of the Bram-East Community Park lands in 2008 provided a significant base of parkland to ensure sufficient access to community parks for existing and future residents.

3.5.3 Benefits of Early Acquisition

Based on the details in the cases reviewed, and other scenarios where early acquisition of parkland is possible, it is apparent that there are significant benefits for municipalities, developers, and existing/future residents with this approach, including:

- **Significant Cost Savings for Municipalities**: Purchasing land well in advance of development, or where possible, prior to planning for specific land uses in an area can save municipalities substantial amounts of money in land acquisition expenses. As well, a more forward-looking process can help a municipality avoid competing with prospective developers in acquiring lands;
- **Ensures Community Amenities Are in Place when People Move In**: As evident from the two case studies, having parkland already acquired and parkland developed or other recreation facilities completed prior to housing development occurring in the area can help ensure that new residents moving into an area have immediate access to recreation services, amenities and programs from day one, rather than waiting years, or relying exclusively on neighbourhood parks that developers may provide within the development lands. As well, this can free-up capacity at existing facilities in other parts of a municipality;
- **Reduced Need for Significant Parkland Dedication or Cash-in-Lieu Requirements**: If a municipality was able to adequately plan and provide enough parkland in an area to meet a community or municipality's recreation needs, it may allow a municipality to place less emphasis on extracting maximum parkland CIL dollars from new development. If a municipality was able to avoid imposing a

parkland CIL charge, the costs of housing development would be lowered, equating to savings that could be passed onto new homebuyers. For every $10,000 in avoided in costs, a new home-buyer would potentially save not only $10,000 in purchase price costs, but also save mortgage interest costs of approximately $5,000 over the life of the mortgage[8];

3.6 CONCLUSIONS

Based on the analysis of municipal parkland dedication and cash-in-lieu policies, revenues, expenditures and reserve funds, the following are the key findings:

- Many municipalities studied use some form of fixed or capped approach to parkland cash-in-lieu payments, which is an important step in ensuring that undue burden is not placed on high-density developments in funding parkland acquisition costs in a municipality;
- Very few municipalities spend as much parkland CIL funds as they receive each year. As a result, reserve fund balances have increased significantly, with reserve fund balances increasing in every municipality studied. The overall parkland CIL reserve fund balance of the municipalities studied was a cumulative $1.47 billion as of 2019. Much of the combined parkland CIL reserve fund surplus is due to the City of Toronto's 2019 year-end balance of $1.03 billion, up from $219 million in 2009;
- Certain municipalities with large-scale developments around major transit stations or in greenfield areas can avoid costly acquisition expenses by strategically pre-purchasing parkland during the initial stages of the planning process before an area is designated for specific land-uses, or well before higher-order transit is installed. Based on the two case studies reviewed, the cost savings for municipalities, taxpayers, and homebuyers can be significant. As well, this ensures that community amenities are in place as residents begin to populate an area.

[8] Based on 25-year mortgage, 3.5% interest rate, monthly payments

4 ANALYSIS OF SECTION 37 REVENUES AND EXPENDITURES

This section of the report focuses on the revenues, expenditures and reserve fund balances for municipalities that utilize density bonusing as permitted within the Planning Act.

4.1 SECTION 37 – DENSITY BONUSING

In its iteration prior to the passage of Bill 108, the former Section 37 of the *Planning Act* allowed for increases in permitted height and/or density through the zoning by-law in return for 'community benefits', provided that the requisite Official Plan policies were in place (e.g. stating the community benefits that would be sought for granting bonusing, etc.). Section 37 contributions were meant to help municipalities provide community infrastructure required by the people being accommodated in a development over and above the permitted as-of-right zoning.

While Section 37 provisions are used in some '905' municipalities, it has been most frequently utilized in the City of Toronto. The *City of Toronto Official Plan* sets out several community benefits that may be provided in return for increased height and/or density, including affordable housing, parkland/park improvements, streetscape improvements, public art, childcare facilities, etc. The contributions can be provided in the form of both cash contributions or in-kind contributions (e.g. funding the construction of a daycare, providing a connection from the development to a transit station, etc.).

While Section 37 contributions are often provided by private developers unlike all other types of charges, taxes or fees imposed by municipalities, there is often no publicly available formula or method for how Section 37 contributions are determined. Instead, Section 37 contributions are determined based on the result of negotiations between municipal staff, the municipal Councilor and an applicant, which can result in significant variation in what is provided from one development to the next, or from one area a municipality to another.

Based on our review of section 37 agreements associated with various zoning by-law amendments in the City of Toronto, in some cases cash contributions agreed upon can range anywhere from less than $1,000 per unit, to over $22,000 per unit in some instances.

The Section 37 system, as has been in place in Ontario for some time, is far from optimal from a public policy perspective. The results of a negotiated charge like Section 37 is contrary to basic principles that public taxation policy should adhere to, including:

- **Fairness:** paying the same as others in similar circumstances;
- **Certainty:** knowing what you'll have to pay;
- **Transparency:** knowing how the tax/charge is calculated, and how the funds are used.

Starting September 2022, the former Section 37 density bonusing system will be replaced with a Community Benefits Charge ("CBC") system, which will impose a charge based on a percentage of the land value for developments that include both 10-or-more residential units and are 5-or-more storeys in height. This percentage has been fixed by regulation at 4% of land value, based on the value as of the day before building permit issuance.

Prior to adoption of a CBC by-law, municipalities will be required to prepare a CBC Strategy Study that will identify the facilities, services, and matters to be funded. The CBC by-law is permitted to be appealed to the Local Planning Appeals Tribunal ("LPAT"). Municipalities are also required to provide annual statements that report on details regarding reserve fund balances and specific expenditures made using CBC reserve funds.

4.2 EXAMPLES OF MUNICIPAL USAGE OF SECTION 37 DENSITY BONUSING

4.2.1 City of Toronto

According to a City of Toronto Staff Report dated September 23, 2019, the City received a total of $184.5 million in Section 37 cash contributions over the 2016-2018 period (or $61.5 million per year), with approximately $91.7 million set aside for specific purposes, and another $92.8 million 'unattributed' until a specific project is determined. Of the $91.7 million for specific projects, the funds are allocated for the following specific purposes:

- $23.9 million for affordable housing;
- $18.1 million for parkland and/or park improvements;
- $14.1 million for streetscape improvements;

- $12.9 million for public agency space (non-profit arts, cultural, community or institutional facilities);
- $10.3 million for community centres;
- $4.0 million for the Jack Layton Ferry Terminal;
- $2.9 million for public art; and
- $5.5 million for miscellaneous projects, including library improvements, road improvements, non-profit child care facilities, bike share infrastructure, and local improvements to transit facilities.

As of the end of 2018, the City had a surplus of approximately $303 million in the Section 37 reserve fund. The vast majority of this reserve fund balance ($214 million out of $303 million, or 71%) was attributed to four Wards within the Downtown area of the City (i.e. York Centre, University Rosedale, Toronto St. Paul's, Toronto Centre).[9]

The Wards outside of the Downtown that have the most substantial reserve fund balances include Wards 17 and 18 (i.e. Don Valley North and Willowdale), with $14.8 million and $14.6 million respectively, which combined make up a further 10% of the reserve fund balance.

4.2.2 Town of Oakville

Through the approval of the Liveable Oakville Plan in 2011, the Town of Oakville began to have in-force Section 37 density bonusing policies, with the first agreement made in 2012.

However, the Town has not used Section 37 extensively – since 2015, the Town has brought in just $565,160 in developer cash contributions and has made another $232,700 from interest earnings. Instead, the Town appears to primarily use section 37 as a tool to receive in-kind contributions, but based on conversations with Town staff, have also utilized letters-of-credit (LOCs) to fund works with drawdowns on those LOC amounts. The Town has spent just $42,100 in funds over the 2016-2019 period, exclusively on the "Kerr Village Building Façade Improvement Grant", but this amount would exclude in-kind contributions or those funded by LOCs. As of year-end 2019, the Section 37 Density Bonus reserve fund had a balance of approximately $2.84 million.

[9] Based on the 25 Ward Structure

It is noted that while the Town reports on which developments have made Section 37 agreements, the details of those agreements are not made public as they are in other jurisdictions such as the City of Toronto.

4.2.3 City of Vaughan

According to the City of Vaughan's guidelines[10] for implementation of Section 37, it's use in Vaughan is primarily intended for the intensification areas of the City.

The City utilizes a sizing threshold, with Section 37 provisions only being applied to projects larger than 4,000 square metres in gross floor area ("GFA") and where the proposed density exceeds 1,000 square metres in GFA over what is otherwise permitted.

The City's guidelines state that while there is no standard city-wide formula,

> …On average the City will seek to achieve a value for community benefits that represent a range between 20-35% of the increase in land value resulting from the increase in height and/or density.[11]

As of year-end 2019, the City of Vaughan had a balance of approximately $3.06 million in its Section 37 reserve fund.

4.2.4 City of Mississauga

According to the City of Mississauga's Bonus Zoning Policy (policy number 07-03-1)[12], the City sets out minimum size requirements for a development to be eligible for Section 37 contributions. The policy states that any zoning by-law amendment in excess of maximum development limits where additional height is proposed or projects that are larger than 5,000 m^2 in size and where the proposed density would exceed 1,500 m^2 over what would otherwise be permitted.

As of the end of 2019, the City had a balance of $1.97 million in its Bonus Zoning Reserve Fund after accruing about $80,000 in interest and spending $300,000 on capital projects that year.

Based on historic revenues and expenditures, over the 2016-2019 period, the City collected approximately $2.1 million in contributions and spent $1.0

[10] City of Vaughan, Guidelines for the Implementation of Section 37 of the Planning Act

[11] Ibid, page 3

[12] City of Mississauga, Bonus Zoning Policy Number 07-03-01, September 26, 2012

million. As well, the reserve fund balance increased from $1.17 million to $1.97 million over that same period.

4.2.5 Other Municipalities

While the City of Markham does utilize Section 37, details regarding contributions and expenditures were not readily available to produce a detailed analysis.

As well, despite extensive research, it does not appear that many of the other municipalities utilize Section 37 density bonusing in any significant way. This includes the City of Brampton[13], City of Barrie, Town of Bradford West Gwillimbury, Town of Whitby, City of Pickering, and the Town of Milton.

It should be noted that Section 37 density bonusing is a tool only used by lower-tier or single-tier municipalities and is therefore not applicable to the upper-tier municipalities that were studied in this report (i.e., Halton Region, York Region, Peel Region, Durham Region and Simcoe County).

4.3 COMMNUITY BENEFITS CHARGE

Starting in September 2022, the current Section 37 of the *Planning Act* will be replaced with a Community Benefits Charge ("CBC") that will allow single-tier and lower-tier municipalities to levy a charge capped at 4% of land value against development, based on the value of land as of the day before first building permit.

The CBC will only be allowed to be imposed on higher-density developments that have both 5-or-more storeys and 10-or-more dwelling units.

The *Planning Act* requires that before a CBC by-law can be passed, the municipality must prepare a "CBC Strategy" study, which will largely be similar in scope to DC background studies required to be done to rationale proposed DC rates. The new CBC system will improve the required level of transparency on reporting of revenues and expenditures, as the O.Reg. 509/20 requires annual reserve fund statements, similar to the requirements under the *Development Charges Act*.

[13] Based on Staff Report 8.2.4-1 to Committee of Council, April 24, 2019

Appeals of CBC by-laws will be allowed should the provisions of the *Planning Act* and associated regulations not be met in the imposition of the charge. The *Planning Act* also sets out a dispute mechanism for specific developments where the amount imposed may exceed the allowable cap on CBCs.

The CBC system would also require that municipalities "spend or allocate" 60% of money in CBC reserve funds at the start of the year.

4.4 CONCLUSIONS

Based on the analysis of municipal Section 37 density bonusing policies, revenues, expenditures and reserve funds, the following are the key findings:

- In most of the municipalities reviewed, the Section 37 density bonusing tool was used sparingly and contributed limited amounts to community infrastructure projects.
- Community Benefits Charges, which replaces the former iteration of Section 37 density bonusing, will become a more broadly applied charge as it affects the full land value of all high-density developments, whereas Section 37 density bonusing only applies to the incremental increase in zoning permissions;
- For most municipalities that will utilize CBCs, the new charge will represent an increase in revenues from what has been collected under the current Section 37 density bonusing system;
- For the City of Toronto, the heaviest user of the former Section 37 density bonusing system, the implementation of the new CBC regime will still lead to a substantial collection of contributions from new development for community infrastructure. However, the CBC imposed by the City of Toronto will provide applicants with greater certainty regarding the quantum to be paid for community benefits than Section 37 density bonusing did;
- Given that CBCs will be applied to all higher-density housing developments rather than just those that exceed existing zoning permissions for height and/or density, while some developments may pay less in CBCs than it may have under Section 37 density bonusing, CBCs will be imposed more broadly across the City, meaning that the impact on the City of Toronto's finances may be negligible.

5 ANALYSIS OF OTHER FISCAL TOOLS

This section of the report reviews other fiscal considerations affecting municipal finances, such as property taxes, user fees and service charges, municipal debt limits, and the City of Toronto's municipal land transfer tax.

5.1 RESIDENTIAL PROPERTY TAXES PER HOUSEHOLD

This section reviews how municipalities have seen property tax revenues and other fees and user rates have changed over time. These tax and user rate/ fee and service charge revenues are mostly used to fund annual operating costs, however, a significant proportion of these revenues are also utilized to fund capital costs.

Figure 23 shows the change in property tax revenues per household and per capita over the 2009-2019 period. The property taxes per household increased for selected municipalities[14] between 22% and 43% over the timeframe, which equates to an average annual increase of between 1.8% and 3.3% per year.

Figure 23 Change in Residential Property Taxes per Household and per Capita, 2009-2019, Selected GTA Municipalities

	Residential Property Taxes per Household			Residential Property Taxes per Capita		
	2009	2019	% Change	2009	2019	% Change
Municipality	*Dollars / Household*		*Percent*	*Dollars / Capita*		*Percent*
Markham	3,020	4,008	33%	812	1,164	43%
Vaughan	3,208	4,122	28%	906	1,267	40%
Brampton	2,717	3,848	42%	768	995	30%
Mississauga	2,275	3,188	40%	719	1,031	43%
Burlington	2,259	2,907	29%	869	1,205	39%
Oakville	3,254	4,250	31%	1,118	1,446	29%
Whitby	2,863	3,994	39%	932	1,305	40%
Oshawa	2,607	3,535	36%	1,002	1,347	34%
Bradford West Gwillimbury	2,067	2,824	37%	698	995	43%
Barrie	2,289	3,266	43%	820	1,190	45%
Toronto	1,912	2,328	22%	752	948	26%

Source: Altus Group Economic Consulting based on Financial Information Returns, 2009 & 2019

[14] The property taxes paid to upper-tier municipalities, where applicable, are embedded within the estimated property taxes per household in each lower-tier municipality.

The calculations in Figure 24 account for the effects of inflation, which according to measurements of the Consumers Price Index ("CPI") in Ontario over the 2009-2019 period, increased by approximately 20%.[15]

In many cases, after accounting for inflation, the property tax revenues municipalities received in 2019 are little changed from what they were in 2009, with the increases to property tax revenues per household after inflation, ranging from just 1% to 19%.

Figure 24 Change in Residential Property Taxes per Household and per Capita, 2009-2019, Selected GTA Municipalities, After Accounting for Inflation

	Residential Property Taxes per Household			Residential Property Taxes per Capita		
	2009	2019 ($2009)	% Change	2009	2019 ($2009)	% Change
Municipality	*Dollars / Household*		*Percent*	*Dollars / Capita*		*Percent*
Markham	3,020	3,340	11%	812	970	20%
Vaughan	3,208	3,435	7%	906	1,055	17%
Brampton	2,717	3,206	18%	768	829	8%
Mississauga	2,275	2,657	17%	719	859	19%
Burlington	2,259	2,423	7%	869	1,004	16%
Oakville	3,254	3,541	9%	1,118	1,205	8%
Whitby	2,863	3,328	16%	932	1,088	17%
Oshawa	2,607	2,946	13%	1,002	1,122	12%
Bradford West Gwillimbury	2,067	2,354	14%	698	829	19%
Barrie	2,289	2,721	19%	820	992	21%
Toronto	1,912	1,940	1%	752	790	5%

Source: Altus Group Economic Consulting based on Financial Information Returns, 2009 & 2019

[15] Statistics Canada Table 18-10-0004-11, Ontario CPI change 2009-2019, all-items (+20.3%), all-items excluding food (+19.5%), all-items excluding food and energy (+19.5%), all items excluding energy (+20.5%)

5.2 USER RATES/FEE REVENUES PER HOUSEHOLD

Figure 25 shows how user rates/fee and service charge revenues have changed over the 2009-2019 period when expressed on a per household and per capita basis.[16]

Figure 25 Change in User Fee and Service Charge Revenues per Household and per Capita, 2009-2019, Selected GTA Municipalities

	User Fees and Service Charges per Household			User Fees and Service Charges per Capita		
	2009	2019	% Change	2009	2019	% Change
Municipality	*Dollars / Household*		*Percent*	*Dollars / Capita*		*Percent*
Markham	1,774	3,144	77%	477	914	92%
Vaughan	1,887	3,355	78%	533	1,031	93%
Brampton	1,257	1,842	47%	355	476	34%
Mississauga	1,195	1,718	44%	378	555	47%
Burlington	1,162	1,343	15%	447	557	24%
Oakville	1,348	1,663	23%	463	566	22%
Whitby	1,323	1,966	49%	431	643	49%
Oshawa	1,007	1,443	43%	387	550	42%
Bradford West Gwillimbury	1,387	1,529	10%	469	538	15%
Barrie	1,241	1,859	50%	444	678	53%
Toronto	1,871	2,605	39%	736	1,061	44%

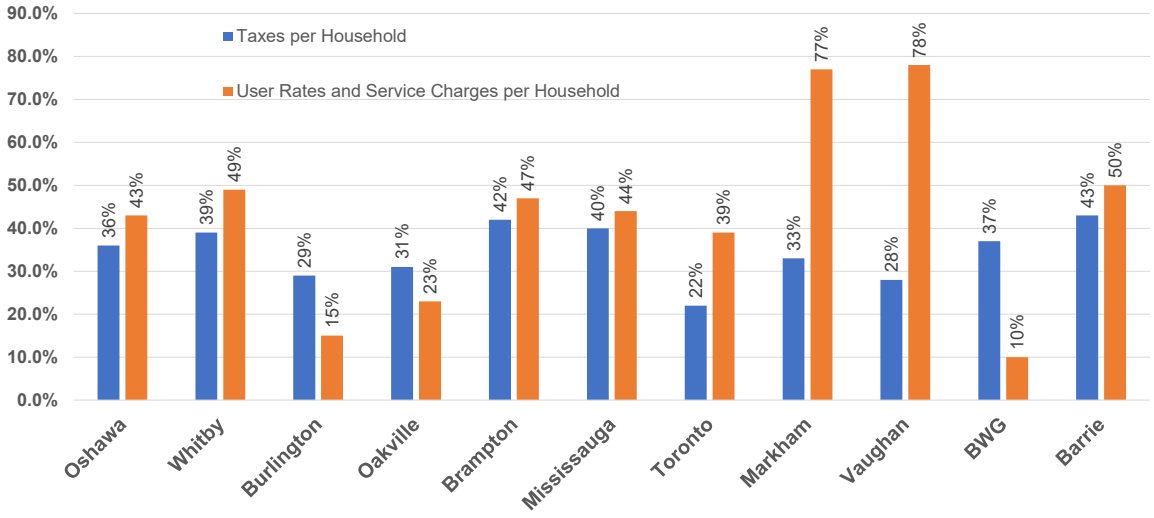
Source: Altus Group Economic Consulting based on Financial Information Returns, 2009 & 2019

In some municipalities, the user rate/fee and service charge revenues have been increasing at a significantly faster pace than property tax revenues (except for Burlington and Oakville in Halton Region). This suggests increasing reliance on user rate/fee revenues for funding municipal services, and greater emphasis on rate-based revenue streams such as water and sewer user rates, parks and recreation program user fees, waste management fees, etc.

[16] User fees/services charges imposed by upper-tier municipalities are allocated to the lower-tier municipalities based on the proportionate share of population in each lower-tier municipality. The user fees/service charge revenues include revenues generated by both residential and non-residential uses, but put on a 'per capita' and 'per household' basis for ease of comparison across municipalities.

Figure 26

Change in Residential Taxes per Household vs. User Rates/Service Charges Revenues per Household, 2009-2019



Source: Altus Group Economic Consulting

5.3 DEBT CHARGES AND PROVINCIAL REPAYMENT LIMITS

Ontario Regulation 403/02 provides for municipal debt limits, known as the "Annual Repayment Limit" (ARL) with municipalities not to have debt charges that exceed 25% of net revenues.

As of 2019, none of the studied municipalities have annual debt charges that are above 10.5% of annual net revenues, with the average in 2019 being 4.7%, significantly below the 25% limit, with that ratio only increasing modestly since 2009 (4.0%).

The largest increase in debt ratio was seen in Barrie (increased from 1.3% to 9.0%) and Peel Region (increased from 2.8% to 8.1%), which is due to major water and wastewater infrastructure projects being funded in those municipalities. However, despite the size of the investments made, both municipalities are still significantly below the provincial ARL.

Figure 27

Net Debt Charges as % of Net Revenues, 2009-2019

Municipality	2009	2019	Change 2009-2019
	Percent		*Pct. Points*
Toronto	8.0	10.5	2.6
York Region	15.6	7.8	(7.8)
Vaughan	2.8	1.6	(1.2)
Markham	-	0.3	0.3
Halton Region	7.6	3.9	(3.7)
Oakville	3.6	4.2	0.6
Burlington	4.6	8.1	3.5
Peel Region	2.8	8.1	5.3
Mississauga	-	3.3	3.3
Brampton	0.3	1.4	1.1
Durham Region	3.8	2.4	(1.4)
Whitby	2.3	0.2	(2.1)
Oshawa	7.0	5.8	(1.2)
Barrie	1.3	9.0	7.7
Simcoe County	1.9	1.7	(0.2)
BWG	3.1	6.5	3.4
Average	4.0	4.7	0.6

Note: Provincial guideline llimits municipalities to have debt charges no higher than 25% of net revenues
Source: Altus Group Economic Consulting based on Financial Information Return data

Since 2011, the Province has provided for increased debt-limit rules for York Region, which enables the Region to use growth-related debt by adding a "Growth Cost Supplement" to the Ministry determined ARL. The Ministry recently extended the increased debt-limit rules for York Region for an additional 10 years, through the year 2031. The increased debt-limit rules for York Region allow the municipality to include 80% of the previous three years of DC collections to the ministry determined ARL.

As of 2019, York Region's debt charges were 7.8% of net revenues, significantly below the ministry determined ARL.[17] However, the Growth Cost Supplement utilized by the Region, as of 2020, would add 60% to the base ARL, effectively bringing the Region's debt limit to 40% instead of the base 25% limit.

[17] The Region's debt charges increased 10.5% of net revenues for the 2020 fiscal year. This updated amount was not shown in the table as not all municipal FIRs are available for 2020.

5.4 CITY OF TORONTO - MUNICIPAL LAND TRANSFER TAX

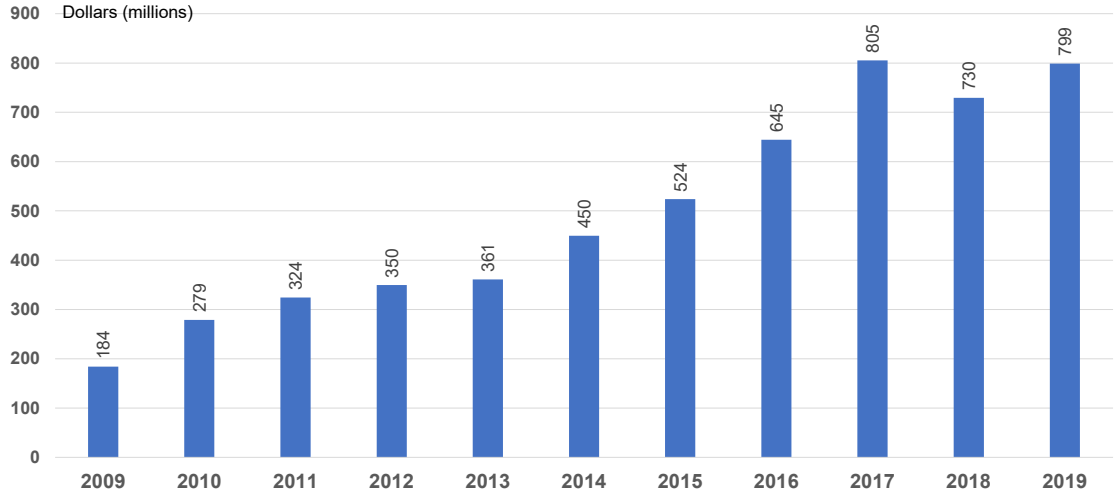
The City of Toronto, under the *City of Toronto Act*, 2006, was granted authority to impose a municipal land transfer tax (MLTT) on all properties in the City. It is the only municipality in Ontario with the authority to levy a land transfer tax, and it is imposed in addition to the Provincial land transfer tax.

The MLTT is imposed on all real estate transactions including the purchase of new homes, as well as resale homes, and other commercial transactions, with some exemptions provided for school boards, universities/colleges, hospitals, nursing homes, etc.

Over the 2009-2019 period, the City has raised $5.45 billion in MLTT revenues, or an average of approximately $495 million per year, with the City receiving more than $700 million in each of 2017, 2018 and 2019.

Figure 28

City of Toronto Municipal Land Transfer Tax Revenues, 2009-2019



Source: Altus Group Economic Consulting based on Financial Information Return data

The City directs MLTT revenues to a mix of capital reserves, operating reserves, and tax rate stabilization reserves. As of 2020, the City directed 5% of MLTT revenues to the City's capital financing reserves, but the City is

exploring opportunities to direct larger portions towards the City's capital program.[18]

While there is potential for year-to-year volatility of MLTT revenues, the experience thus far has been that MLTT revenues are a fairly reliable, steadily increasing source of ongoing operational and capital funding for the City.

To provide context for how significant the MLTT revenues have been for the City, the $799 million raised in MLTT in 2019 represents approximately 6.2% of all municipal operating expenditures ($12.9 billion in 2019). The $799 million in revenues, if used entirely to fund operating costs, is more than enough on its own to fund all of the City's operating expenses for the entire Fire Services division ($567 million) and Library services ($226 million).

The City's significant MLTT revenues have allowed the City to minimize property tax increases – the $799 million generated in 2019 equates to over 18% of the City's property tax revenues generated from residential and non-residential properties ($4.4 billion). If not for the MLTT revenues, all else being equal (service levels being unchanged from what they currently are), the City would have required the bulk of the $799 million to come from increased revenues from the City's property tax base.

5.5 CONCLUSIONS

Based on the analysis of municipal property taxes and user rates, the following are the key findings:

- Municipalities have generally committed to limited annual property tax increases, as evident from the property taxes per household analysis that show little increases in reliance on property taxes as a funding source from each housing unit in a municipality.
- Instead, municipalities have relied on increased property tax revenues generated by new development to maintain municipal service levels for tax-based services;
- Most municipalities studied are also increasingly more reliant on user fee and service charge increases than property tax increases, with 7 of

[18] City of Toronto, 2020 Operating Budget Briefing Note, https://www.toronto.ca/legdocs/mmis/2020/ex/bgrd/backgroundfile-146043.pdf

10 municipalities seeing user rates/service charges increase at a faster pace than property tax revenues per household;

- The increases to taxes, fees and charges levied on existing ratepayers have paled in comparison to the increases seen for DCs imposed on new residential and non-residential developments.
- All municipalities studied are well within the Province's debt limit, with average debt charges as a share of net revenues increasingly only moderately since 2009.
- The City's Municipal Land Transfer Tax has provided the City with a steady and reliably growing source of funding that is primarily used to fund the City's operating costs and stabilize tax rate increases – the amount of money the City generates is roughly equivalent the entirety of operating costs for the City's Fire Services and Library Services combined. The MLTT has limited the City's need to increase property tax revenues to fund operating costs for City services.

6 CONCLUSIONS AND SUMMARY

The studied municipalities studied have a total of over $5 billion in development-generated capital funds available to be used to provide the necessary community infrastructure for existing and future community residents and businesses.

Figure 29 **Balance in Reserves and Reserve Funds - DCs, Parkland CIL and Section 37, 2019, by Municipality**

	Parkland CIL	Development Charges	Section 37	Total
		Dollars		
Durham Region	n.a.	695,922,041	n.a.	695,922,041
Oshawa	1,261,656	56,521,549	n.a.	57,783,205
Whitby	8,431,972	109,036,901	n.a.	117,468,873
Halton Region	n.a.	57,215,950	n.a.	57,215,950
Burlington	16,636,186	28,605,758	n.a.	45,241,944
Oakville	35,596,055	80,472,790	2,840,000	118,908,845
Peel Region	n.a.	(122,578,797)	n.a.	(122,578,797)
Brampton	98,039,594	160,568,259	n.a.	258,607,853
Mississauga	132,956,080	182,734,591	1,970,000	317,660,671
Toronto	1,034,737,470	1,223,314,054	303,000,000	2,561,051,524
York Region	n.a.	269,957,121	n.a.	269,957,121
Markham	59,165,301	38,412,156	n.a.	97,577,457
Vaughan	72,544,521	482,519,449	3,055,600	558,119,570
Simcoe County	n.a.	1,597,622	n.a.	1,597,622
BWG	1,727,843	8,613,255	n.a.	10,341,098
Barrie	17,304,300	(12,626,352)	n.a.	4,677,948
Total	1,478,400,978	3,260,286,347	310,865,600	5,049,552,925

Source: Altus Group Economic Consulting based on Financial Information Returns, municipal data and reports

Compared to planned growth in population and employment, many municipalities studied have fallen short of forecasts, in part causing actual DC revenues to come in substantially below forecasted revenues, with municipalities responding (in the aggregate) to the shortfall in DC revenues by delaying capital expenditures in a proportionate manner, by delaying capital projects among other responses. Some municipalities have

disproportionately delayed DC expenditures well below the degree to which revenues have fallen short.

The delaying of infrastructure spending, while providing short-term budgetary relief, tends to only result in escalated costs in the future for the required works, with cost escalation likely beyond any interest that the funds may earn while in the reserve fund, resulting in municipalities spending substantially more money in the long-term than is saved short-term. Further, delays in spending on infrastructure that is required by new growth can give rise to further delays on the ability of new development to proceed in a timely manner if the infrastructure needed is not in place.

The roughly $5 billion in available funds for infrastructure presents an opportunity for GTA municipalities to add much needed community amenities and infrastructure to improve the quality of life for existing residents and create capacity to accommodate new development.

Appendix A
Detailed Tables –
Development Charge Data

Figure A- 1 Residential Development Charge Rates for GTA Municipalities, as of March 2009

	Single Detached Dwellings			Apartments (2+ Bedrooms)[1]			Apartments (<2 Bedrooms)[1]		
	Municipal DC Rate	Regional DC Rate	Total	Municipal DC Rate	Regional DC Rate	Total	Municipal DC Rate	Regional DC Rate	Total
					Dollars per Unit				
Durham Region									
Oshawa	8,108	17,879	25,987	4,850	10,427	15,277	3,836	11,784	15,620
Whitby	10,208	17,879	28,087	7,171	10,427	17,598	3,914	11,784	15,698
Halton Region									
Burlington	8,702	27,843	36,545	6,751	16,663	23,414	4,748	11,146	15,894
Oakville	12,926	27,843	40,769	8,222	16,663	24,885	4,740	11,146	15,886
Peel Region									
Brampton	21,941	17,653	39,594	16,133	12,609	28,742	8,389	6,557	14,946
Mississauga	11,850	17,653	29,503	8,464	12,609	21,073	4,401	6,557	10,958
Toronto	12,366	n.a.	12,366	8,021	n.a.	8,021	4,985	n.a.	4,985
York Region									
Markham	15,540	23,438	38,978	10,220	14,602	24,822	6,130	9,445	15,575
Vaughan	12,505	23,438	35,943	7,425	14,602	22,027	7,425	9,445	16,870
Simcoe County									
BWG	28,568	4,067	32,635	16,070	2,847	18,917	11,479	2,847	14,326
Barrie	26,060	n.a.	26,060	15,236	n.a.	15,236	12,831	n.a.	12,831

1 The DC Rates for the Regions of Peel and York differentiate large and small apartment units based off of size thresholds (i.e. 750 and 700 sf, respectively) rather than by number of bedrooms

Note: DC rates shown here are assuming that the unit is built within the urban area, on municipal water and wastewater services. No area-specific DC rates are taken into account.

Source: Altus Group Economic Consulting based on municipal and regional development charge by-laws.

Figure A- 2 Residential Development Charge Rates for GTA Municipalities, Current as of January 2021

	Single Detached Dwellings			Large Apartments (2+ Bedrooms)[1]			Small Apartments (<2 Bedrooms)[1]		
	Municipal DC Rate	Regional DC Rate	Total	Municipal DC Rate	Regional DC Rate	Total	Municipal DC Rate	Regional DC Rate	Total
					Dollars per Unit				
Durham Region									
Oshawa	24,490	32,926	57,416	15,501	19,130	34,631	9,463	12,461	21,924
Whitby	24,418	32,926	57,344	14,393	19,130	33,523	9,363	12,461	21,824
Halton Region									
Burlington	12,792	44,591	57,383	6,507	14,732	21,239	4,794	11,279	16,073
Oakville	37,667	44,591	82,259	20,244	14,732	34,976	12,206	11,279	23,484
Peel Region									
Brampton	38,869	53,510	92,380	23,369	32,752	56,121	13,465	21,662	35,127
Mississauga	41,079	53,510	94,589	27,997	32,752	60,749	15,254	21,662	36,916
Toronto	87,299	n.a.	87,299	51,103	n.a.	51,103	33,358	n.a.	33,358
York Region									
Markham	38,371	63,593	101,964	22,981	37,425	60,406	16,896	27,321	44,217
Vaughan	54,812	63,593	118,405	33,428	37,425	70,853	24,093	27,321	51,414
Simcoe County									
BWG	60,141	9,984	70,125	32,993	5,634	38,627	26,085	5,634	31,719
Barrie	67,478	n.a.	67,478	37,794	n.a.	37,794	26,531	n.a.	26,531

1 The DC Rates for the Regions of Peel and York differentiate large and small apartment units based off of size thresholds (i.e. 750 and 700 sf, respectively) rather than by number of bedrooms

Note: DC rates shown here are assuming that the unit is built within the urban area, on municipal water and wastewater services. No area-specific DC rates are taken into account.

Source: Altus Group Economic Consulting based on municipal and regional development charge by-laws.

Appendix B
Demographic Information

DEMOGRAPHIC AND STATISTICAL DATA

Many metrics in the report are expressed on 'per capita' or 'per household' bases – this appendix provides detailed data on the population and household counts within each municipality. As well, data on housing starts and completions within each municipality are provided for context behind some of the analysis for development-driven revenues by municipality, and as compared from one municipality to the next.

POPULATION

Over the 2009-2019 period, the population in the municipalities studied has increased in the range of 6% in the City of Mississauga to 65% in the Town of Bradford West Gwillimbury. Most municipalities studied fall within a range of 12% to 23% population growth over the 10-year period.[19]

Figure B- 1

Municipal Population Change, 2009-2019, Study Municipalities

Municipality	2009	2019	Change 2009-2019	% Change
		Persons		*Percent*
City of Toronto	2,649,010	2,963,468	314,458	12%
York Region	1,016,640	1,182,525	165,885	16%
Vaughan	279,792	326,472	46,680	17%
Markham	299,697	345,531	45,834	15%
Halton Region	493,704	597,770	104,066	21%
Oakville	183,708	212,715	29,007	16%
Burlington	174,908	191,902	16,994	10%
Peel Region	1,293,974	1,533,961	239,987	19%
Mississauga	722,664	769,420	46,756	6%
Brampton	511,080	689,856	178,776	35%
Durham Region	610,458	698,184	87,726	14%
Whitby	122,911	137,051	14,140	12%
Oshawa	149,666	175,255	25,589	17%
Simcoe County	280,061	344,816	64,755	23%
Bradford West Gwillimbury	25,987	42,854	16,867	65%
Barrie	138,442	149,854	11,412	8%

Source: Altus Group Economic Consulting based on Statistics Canada, Annual Demographic Estimates

In absolute terms of persons added, the City of Toronto has added the most at approximately 314,000 persons of net population growth over the 10-year period, higher than any of the five other upper-tier municipalities, with Peel Region being the second highest at almost 240,000 persons.

[19] Exceptions: Mississauga 6%, Barrie 8%, and Brampton 35%

HOUSEHOLDS

Figure B-2 shows the number of households in each municipality, as reported for the years 2009 and 2019 in Financial Information Returns.

Figure B- 2

Municipal Household Change, 2009-2019, Study Municipalities

Municipality	2009	2019	Change 2009-2019	% Change
		Households		*Percent*
City of Toronto	1,084,000	1,208,300	124,300	11%
York Region	308,852	382,571	73,719	24%
Vaughan	80,167	101,900	21,733	27%
Markham	81,719	101,401	19,682	24%
Halton Region	171,478	222,857	51,379	30%
Oakville	60,868	72,893	12,025	20%
Burlington	66,328	73,575	7,247	11%
Peel Region	383,969	450,000	66,031	17%
Mississauga	231,000	251,900	20,900	9%
Brampton	140,686	180,189	39,503	28%
Durham Region	216,400	239,100	22,700	10%
Whitby	40,174	44,770	4,596	11%
Oshawa	57,578	65,534	7,956	14%
Simcoe County	130,623	144,481	13,858	11%
Bradford West Gwillimbury	8,644	13,583	4,939	57%
Barrie	50,123	54,661	4,538	9%

Source:
Altus Group Economic Consulting based on Financial Information Returns, 2009 & 2019

HOUSING STARTS BY MUNICIPALITY

The tables below show the number of housing starts by municipality over the 2009-2020 period, with data broken out and expressed as annual averages by three-year segment (Figure B- 3).

Figure B- 3

Total Housing Starts, by Municipality, Three-Year Annual Averages, 2009-2020

Municipality	2009-2011	2012-2014	2015-2017	2018-2020
		Units		
City of Toronto	14,772	17,568	19,163	18,917
York Region	7,585	8,489	8,483	6,794
Vaughan	2,545	1,719	2,629	2,628
Markham	2,003	3,398	2,167	1,397
Halton Region	3,441	3,541	4,158	3,789
Oakville	775	1,318	1,746	1,546
Burlington	474	355	432	402
Peel Region	4,809	5,903	5,693	5,576
Mississauga	1,931	1,201	1,791	2,582
Brampton	2,525	4,228	3,269	2,405
Durham Region	2,649	2,652	4,067	3,916
Whitby	548	380	491	697
Oshawa	509	642	1,166	964
Simcoe County[1]	1,464	1,630	3,074	2,267
BWG	284	262	266	154
Barrie	413	521	491	555

1 Includes Innisfil, Springwater, Collingwood, Midland, Penetanguishene, Tay, Orillia, Severn, Ramara, Bradford West Gwillimbury, New Tecumseth, Wasaga Beach, Adjala-Tosorontio

Source: Altus Group Economic Consulting based on CMHC Housing Completions Data, 2020

POPULATION AND EMPLOYMENT GROWTH VS. GROWTH PLAN FORECASTS

The table below shows a comparison of 2019 population and employment in upper-tier and single-tier municipalities, and growth since 2001, compared to forecasts in the Growth Plan.

Figure B- 4 Upper- and Single-Tier Municipality Population and Employment Change, 2001-2019, Actual vs. Growth Plan Forecasts

	Growth Plan Forecasts					
	Base Year (2001)	Forecast (2019 est.)	Anticipated Growth (2001-2019)	Actuals (2019)	Actual Growth (2001-2019)	Actual as % of Anticipated Growth
Population			*Persons*			*Percent*
City of Toronto	2,590,000	2,931,000	341,000	2,963,468	373,468	110%
York Region	760,000	1,276,000	516,000	1,182,525	422,525	82%
Halton Region	390,000	616,000	226,000	597,770	207,770	92%
Peel Region	1,030,000	1,516,000	486,000	1,533,961	503,961	104%
Durham Region	530,000	737,000	207,000	698,184	168,184	81%
Simcoe County	254,000	333,000	79,000	344,816	90,816	115%
Barrie	108,000	166,000	58,000	149,854	41,854	72%
Total	5,662,000	7,575,000	1,913,000	7,470,578	1,808,578	95%
Employment			*Jobs*			*Percent*
City of Toronto	1,440,000	1,600,000	160,000	1,729,000	289,000	181%
York Region	390,000	655,000	265,000	593,000	203,000	77%
Halton Region	190,000	314,000	124,000	283,000	93,000	75%
Peel Region	530,000	777,000	247,000	750,000	220,000	89%
Durham Region	190,000	287,000	97,000	239,000	49,000	51%
Simcoe County	85,000	118,000	33,000	120,000	35,000	106%
Barrie	53,000	84,000	31,000	77,000	24,000	77%
Total	2,878,000	3,835,000	957,000	3,791,000	913,000	95%

Source: Altus Group Economic Consulting based on Hemson Consulting, GGH: Growth Forecasts to 2051 (August 26, 2020), 2006 Growth Plan Schedule 3, Statistics Canada Annual Demographic Estimates

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.

Affordable Housing in the 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

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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.

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

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

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.

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

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.

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 require 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.

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

The impact of various State and Federal tax breaks also has to be considered as being an important factor in the

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.

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

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.

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
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OFFSETS & INCENTIVES -At a glance, all Cities compared	A-9

	Policy Type	Threshold / Trigger	Extent of Obligation	Affordability Term	Affordability Level	Offsets & Incentives	Public Subsidies Available	Outcomes
Toronto - *Proposed Draft Policies*	**Mandatory**	100 units in strong market areas*, or 8,000 m2 of residential GFA 140 units in moderate market* areas, or 10,000 m2 of residential GFA Only applies to developments within m of a Protected Major Transit Station Area(PMTSA), there are potentially 180 PMTSAs Exemptions- Residential Care Homes Institutional Student Residences Non-Profit Housing **North York City Centre and Etobicoke City Centre are moderate market areas, all other parts of the City are strong market areas*	For Condominiums and Ownership housing; 10% of the Gross Residential Floor Area in strong market areas 5% of the Gross Residential Floor Area in moderate market areas For purpose-built Rental housing; 5% of the Gross Residential Floor Area in strong market areas 3% of the Gross Residential Floor Area in moderate market areas Units can be provided off-site but that requires a Zoning By-law Amendment to accomplish	99 years	**Rentals-** (not to exceed 80% AMR) (rent not to exceed 30% of household income) Bachelor Units 20%-50% AMI ($494 - $918/m) 1 Bedroom 30%-60% AMI ($702 - $1,099/m) 2 Bedroom 30%-60% AMI ($702 - $1,273/m) 3 Bedroom 30%-60% AMI ($702 - $1,413/m) **Ownership-** (occupancy cost not to exceed 30% of household income) (5% down payment, 2% mortgage) (est. sale prices -2019) Bachelor Units 30% AMI $ 130,000 1 Bedroom 40% AMI $ 195,000 2 Bedroom 50% AMI $ 250,000 3 Bedroom 60% AMI $ 300,000 Toronto proposes to provide the deepest levels of affordability among the comparative peer group	None	Possible only if project provides more residential GFA, or deeper affordability levels than required under the Inclusionary Zoning Bylaw	The HousingTO Action Plan 2020-2030 calls for the creation of; 40,000 new affordable rental homes 4,000 new affordable ownership homes Assuming average Multi-residential production 0f 14,000 units per year in Toronto remains steady If the IZ Bylaw, as proposed comes into effect, it may generate approvals of between 700 - 1000 units per year. 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. It will likely fall far short of the rental target, but may exceed the ownership target

A-1

	Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Levels	Offsets & Incentives	Public Subsidies Available	Outcomes
Montreal	**Voluntary** 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	Upon a rezoning which will result in a project of; 100 units, or 9,000m2 of residential GFA Set asides are calculated only on the increased density and not on the base density	15% of units on site to be social housing 15% of units on site to be rental or ownership affordable housing Option to build off-site, equivalent to 17.6% of units to be social housing Option to sell to the City clean & serviced land for social housing at $12,000 per unit. 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 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. 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)	Permanent	**Social housing units are**: Rent geared to income across certain bands of income levels Ownership of social housing units rests with City or Housing Authourity **Affordable Units –** Individual households not to exceed 30% of income on housing costs -max rents 2019 Studio $ 820 1 Bedrm $ 984 2 Bedrm $1,107 3 Bedrm $1,313 -max sale price 2019 Studio $ 200,000 1 Bedrm $ 250,000 2 Bedrm $ 280,000 3 Bedrm $ 360,000	Density bonusing, relaxation of certain development standards Grants and loans for the construction of Social Housing Provision of underutilised public lands	Provincial & Municipal funds to subsidise certain projects CMHC mortgages, loans, and grants Montreal Housing Authority (SHDM) funding for certain affordable rental and ownership projects	**Social Housing** 2005-2018 6,564 units secured by approvals & financial guarantees, to date only 3,538 units completed or under construction **AffordableHousing** 2005-2018 5,704 units secured by approvals & financial guarantees, to date only 2,714 units completed **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 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
Vancouver	**Mandatory in certain districts,** **Voluntary, Required on rezoning elsewhere**	Rezoning large sites (2+ acres) or Or sites that will add 200 units	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 Elsewhere a range of 20% - 30% depending on Planning District Where units are secured they are generally delivered to the City in an “Air Space Parcel” with separate entrances and amenities. Can be provided on-site or off-site. Allows for flexibility for unique circumstances.	Social Housing- permanent 60 years for other	Social housing - Rent geared to income City and funding partners responsible for costs associated with long term affordability Moderate Income Housing targeted towards household incomes of $30,000 to $80,000/yr expected to be provided by private developers	Increased height and density, relaxed development standards. Specific Density bonuses for Purpose-Built rental projects in certain zones Development charges are waived on units created through IZ.	Federal/Provincial/Municipal Funds for the construction of stand alone Social Housing Provincial – Interim Construction Financing for the portion of a project which is affordable rental City – Waived development charges on entire project for purpose-built-rental that provides 20% affordable units	As of December 2017, 21 projects approved under Inclusionary Zoning totalling approx.. 1,500 social housing units for low-moderate income families. Goal 2018-2028 is to secure 4,200 social housing units through IZ

	Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Level	Offsets & Incentives	Public Subsidies Available	Outcomes
Boston	**Mandatory, Required on rezoning.** Last update in 2015	The inclusionary zoning program applies to any residential project of 10 units or more that is: 1. Financed by the City 2. On property owned by the City or Boston Redevelopment Authority or, 3. Requires zoning relief. Projects are exempt if: 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.	<u>On-site:</u> 13% of the total number of units on-site is required to be affordable. <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 <u>Rental projects</u> can only meet inclusionary zoning requirements through a contribution approved by relevant City Departments.[14] <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. Inclusionary zoning requirements can also be met through rehabilitation of affordable units.	30 years, right to renew for 20 years, and may seek up to 99 years by agreement	Rental Units- 70% of AMI or less In Zone C, up to 100% AMI by agreement Ownership Units- Half of the On-site units at 80% of AMI Half up to 100% AMI	Through the rezoning process, developers may seek relief from zoning provisions such as, density, height, setback, and coverage. Developers can also apply for financial relief through the City's Inclusionary Development Fund.	<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: 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. Additionally, 10% of the total units must be for households earning less than 30% of AMI State & Federal – Opportunity Zones Offers 100% Capital Gains exemption for development in designated lower income areas, Boston has thirteen zones	Meeting approximately 30% of the program goal.[13] Between 2000 – 2018 created 2,599 units (on & off site), of that number 546 were created in 2018. 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)
Chicago	**Mandatory, dependent on location.** Last update in 2017.	10 or more units Requires rezoning, built on City land, receives financial assistance, or in a "planned" development in the Downtown area	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 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	30 years, or 99 years	Rental Units- 60% of AMI Ownership Units- 100% of AMI	Density bonusing, reduced development standards Fee Waivers Tax Increment Financing in prescribed Districts – Projects receiving TIF funds must have lower qualifying income levels for 10% of unts -50% AMI for rental -80% AMI ownership	LIHTC allocates a 9%, or 4% federal income tax credit to developers that build and rehabilitate affordable housing. Federal – Opportunity Zones Offers 100% Capital Gains exemption for development in designated lower income areas, Chicago has 133 zones.	From 2003-2019 Inclusionary Zoning created 1,049 units and $123.5 Million in lieu fees Critics complain the units are too expensive and too few have been created

	Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Levels	Offsets & Incentives	Public Subsidies Available	Outcomes
Los Angeles	**Voluntary** Applies to rezoning applications	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	**Value Capture Ordinance;** Allows 35% density increase if one of the following types of affordable housing is provided- a. 11% Very Low Income Units b. 20% Low Income Units c. 40% Moderate Income Units in an ownership project May allow even greater bonus density if- d. For every 1% additional set aside of Very Low Income units, an additional 2.5% density e. For every 1% additional set asideof 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 Off-site construction- -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 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	55 years	Very Low Income 50% of AMI Low Income 80% of AMI Moderate Income up to150% of AMI	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	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	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%

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

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	Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Levels	Offsets & Incentives	Public Subsidies Available	Outcomes
Portland	**Mandatory** Applies to all residential development Current Program adopted in 2017	Applies to all new residential projects of 20 units or more. City-wide, but certain central districts require higher contributions	Developers have the option to choose one of five contribution models; Unit set aside rates; -OPTION 1 (City-wide) On-site 15%, must be affordable at 80% Median Family Income (FMI) Central City Plan District & Gateway Plan District On Site 20%, at 80% FMI -OPTION 2 (City Wide) On-site 8%, at 60% FMI Central City Plan District & Gateway Plan District On-site 10%, at 60% FMI -OPTION 3 (City Wide & Districts) Off-site 20%, at 60% FMI, or Off-site 10%, at 30% FMI -OPTION 4 Affordable Housing Fee calculated on the GFA applied to the applicable percentage of the project; City-wide $19.00 per sf of residential GFA (before Dec 31, 2020) $23.00 per sf of residential GFA (after Dec 31, 2020) Central & Gateway Districts $27.00 per sf of residential GFA -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 In all projects 5% of the affordable units must be accessible	99 years	When units are provided the following affordability levels are to be met by project type; -OPTION 1 (City-wide) On-site 15%, must be affordable at 80% Median Family Income (FMI) Central City Plan District & Gateway Plan District On Site 20%, at 80% FMI -OPTION 2 (City Wide) On-site 8%, at 60% FMI Central City Plan District & Gateway Plan District On-site 10%, at 60% FMI -OPTION 3 (City Wide & Districts) Off-site 20%, at 60% FMI, or Off-site 10%, at 30% FMI -OPTION 5 Designate Existing Units 25% at 60% FMI, or 15% at 30% FMI	Through the rezoning process, developers may seek relief from zoning provisions such as, density, height, setbacks. Reduced parking requirements for affordable units.	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 100% Capital Gains exemption for development in designated lower income areas Municipal – 10 year property tax exemption on affordable units (City-wide) In Central City Plan District, 10 year property exemption on all residential units in buildings with density of 5.0x or greater Construction Excise Tax exemption on affordable units Development Charges waived for all units at 60% of FMI	Portland's 2035 Comprehensive Plan sets a goal of producing 10,000 regulated affordable housing units Since 2017 119 Development Projects totalling 7,309 new housing units are delivering 780 Inclusionary Housing Units The units committed to date; 56% are at 60% MFI 44% are at 80% MFI Studio 39.4% 1 Bedrm 35.9% 2 Bedrm 13.4% 3 Bedrm 8.5% 4 Bedrm 0.7% 98% Rental 2% Ownership Currently 92 projects subject to Inclusionary Zoning are in the approval process, with a potential 14,700 new housing units

	Policy Type	Threshold / Trigger	Extent of Obligation	Term of Affordability	Affordability Levels	Offsets & Incentives	Public Subsidies Available	Outcomes
San Francisco	**Mandatory** Applies to all residential development Current Program adopted in First introduced in 1992	Applies to all new residential projects of 10 units or more. City-wide, but certain central districts require higher contributions Differing contribution rates for; -Small Projects (10 to 24 units) -Large Projects, Rental (25+units) -Large Projects, Ownership (25 or more units)	Developers have the option to choose one of five contribution models; -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 Unit set aside rates; -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% Affordable Housing Fee calculated on the GFA applied to the applicable percentage of the project; $199.50 per sf of residential GFA (2019 indexed amount) times, -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 An application for rezoning may result in higher set aside rates	Permanent	When units are provided the following affordability levels are to be met by project type; -Small Project (10-24 units) 13% of units at 55% AMI for rental or 13% of units at 80% AMI for ownership -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 -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 For rental units, rents should not exceed 30% of household income	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 City- HOME SF Density Bonus Program for projects providing deeper level of affordability, can be combined with State Density Bonuses	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, San Francisco has eleven zones	From 1992-2008 produced 1096 units from 133 developments and $17 million in fees. 72% were ownership units, 28% rental From 2014-2018 a total of 1,586 inclusionary units were completed, and $ 355.1 Million in fees was collected 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 $53.1 Million in Fees was collected (a 49.5% decline from the previous year and the lowest amount in 4 years)

	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.	Fails to generate affordable units at the prescribed rate from most projects. Acts as a revenue source for Seattle to fund the construction of affordable housing on its own or with non-profits partners. From 2001-2016, Incentive Zoning secured 128 units across 25 development projects that totalled 2,162 units. Collected $ 87 Million cash-in-lieu payments. Current Goal to achieve 6,000 units between 2017-2035. In 2019 MAH delivered 64 units from 5 projects totalling 684 units, collected $15.6 Million cash-in-lieu. Most projects in the approvals process in 2019 opted for cash-in-lieu, future year commitments of approx.. $100 Million.
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.	LIHTC allocates a 9%, or 4% federal income tax credit to developers that build and rehabilitate affordable housing. Federal – Opportunity Zones Offers 100% Capital Gains exemption for development in designated lower income areas, Washington DC has twenty-five zones.	From 2009-2019 Inclusionary Zoning created 989 units from 128 contributing developments In 2019 196 units were created from 26 contributing projects. Since the program was overhauled in 2016 the average annual production has been 194 units. Proposed additional changes in 2020 to relax zoning restrictions in more neighbourhoods may increase average production in future years.

OFFSETS & INCENTIVES – AT A GLANCE COMPARISION 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)	• **NO** • Only as a result of a formal Zoning Bylaw Amendment	• **NO**	• **NO**	• **NO**	• **NO**	• National Housing Strategy Loans & Grants • Provincial and Municipal loans and grants
Montreal	• **YES**	• **YES**, reduced parking standards	• **NO**	• **NO**	• **NO**	• National Housing Strategy Loans & Grants • Provincial and Municipal loans and grants • Sale of Public lands
Vancouver	• **YES,** varies by district • Eligible Purpose-Built Rental projects receive density bonus without rezoning	• **YES**, reduced parking standards	• **YES**, Development Charges waived for the IZ units • Waived Development charges on entire Rental Project	• **NO**	• **NO**	• National Housing Strategy Loans & Grants • Provincial and Municipal loans and grants
Boston	• **NO** • Only as a result of a formal Zoning Bylaw Amendment	• **NO** • Only as a result of a formal Zoning Bylaw Amendment	• **NO**	• **NO**	• **NO**	• Federal Low Income Housing Tax Credit (4% or 9%) • Opportunity Zone Tax Credit • Eligible for Federal, State, Municipal Housing Funds
Chicago	• **YES,** varies by district	• **YES**, reduced parking standards • relaxed Setback requirements	• **YES**	• **YES**	• **NO**	• 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	• **YES**, varies by district • Statewide mandated density bonusses for Affordable Housing, up to 35% bonus without rezoning • Municipal Transit Oriented Communities, up to 55% bonus without rezoning	• **YES**, reduced parking standards • relaxed Setback requirements	• **NO**	• Affordable Housing Linkage Fee, Reduced or waived on affordable units	• **NO**	• Federal Low Income Housing Tax Credit (4% or 9%) • Opportunity Zone Tax Credit • Eligible for Federal, State, Municipal Housing Funds
New York City	• **YES**, varies by district • Range of 20%-33% • Certain Transit Oriented Developments may qualify for additional density	• **YES**, reduced parking standards • relaxed Setback requirements	• **NO**	• **YES**	• 100% Property Tax Waiver on entire Rental Project for 35 years	• 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	• **NO** Only as a result of a formal Zoning Bylaw Amendment	• **YES**, reduced parking standards	• Development Charges waived on all units targeting 60% FMI, and below	• **NO**	• 100% Property Tax Waiver for 10 years on affordable units	• 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	• **YES**, varies by district • Statewide mandated density bonusses for Affordable Housing, up to 35% bonus without rezoning • Municipal HOME SF, additional density bonus can be combined with State bonus	• **NO** • Only as a result of a formal Zoning Bylaw Amendment	• **NO**	• **NO**	• **NO**	• Federal Low Income Housing Tax Credit (4% or 9%) • Opportunity Zone Tax Credit • Eligible for Federal, State, Municipal Housing Funds
Seattle	• **YES**, varies by district	• **YES**, reduced parking standards • relaxed Setback requirements	• **NO**	• **NO**	100% Property Tax Exemption for certain Multi-Family Developments for 12 years	• Federal Low Income Housing Tax Credit (4% or 9%) • Opportunity Zone Tax Credit • Eligible for Federal, State, Municipal Housing Funds
Washington DC	• **YES**, varies by district • Up to 20% density bonus without rezoning	• **YES**, reduced parking standards • relaxed Setback requirements	• **NO**	• **NO**	• Property Tax Waiver on affordable units for 30 years	• 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.

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Trusted advisors since 1976.

The City of Toronto

Update:
Evaluation of Potential Impacts of an Inclusionary Zoning Policy

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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 are 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 are 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

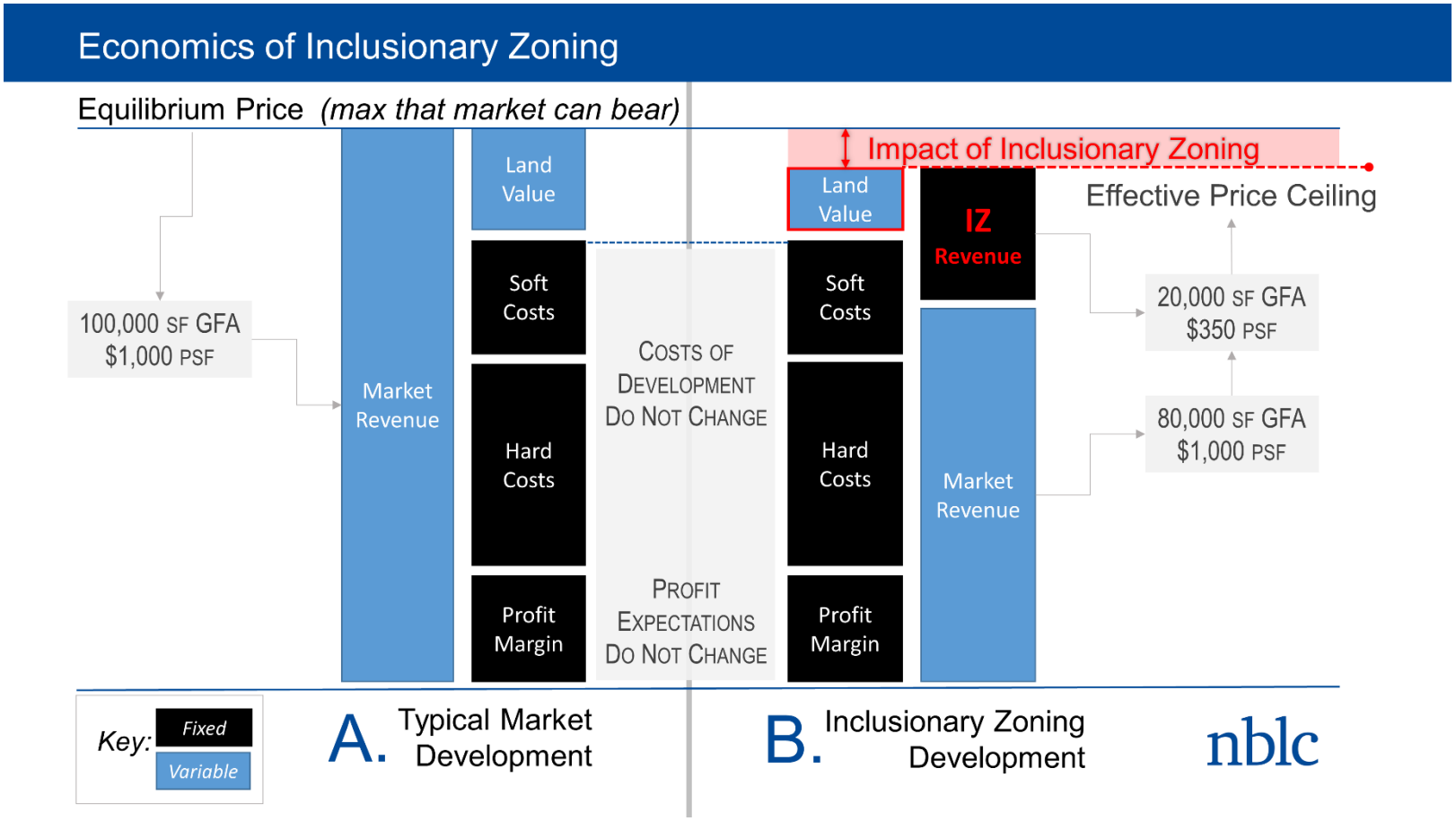
Project Costs	- B
Developer Profit	- C
Residual Land Value	= D

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


Economics of Inclusionary Zoning
Equilibrium Price (max that market can bear)
100,000 SF GFA
$1,000 PSF
Market Revenue
Land Value
Soft Costs
Hard Costs
Profit Margin
COSTS OF DEVELOPMENT DO NOT CHANGE
PROFIT EXPECTATIONS DO NOT CHANGE
Impact of Inclusionary Zoning
Land Value
Soft Costs
Hard Costs
Profit Margin
IZ Revenue
Market Revenue
Effective Price Ceiling
20,000 SF GFA
$350 PSF
80,000 SF GFA
$1,000 PSF
Key:
Fixed
Variable
A. Typical Market Development
B. Inclusionary Zoning Development
nblc

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

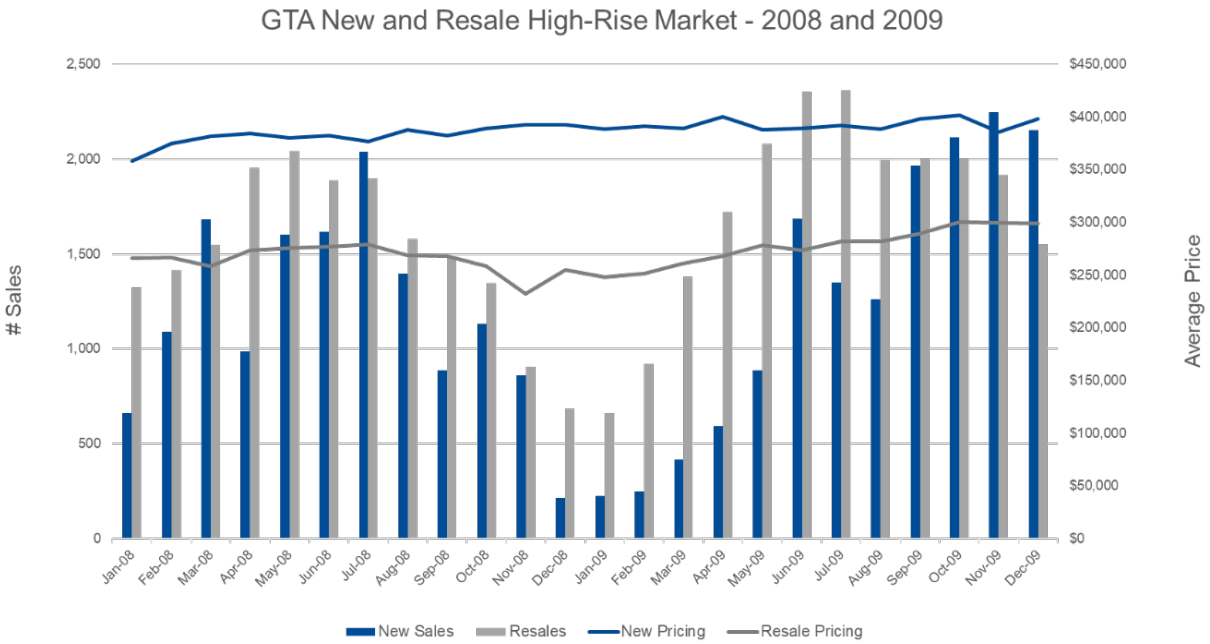
At the time of writing this report, global markets are adjusting as a result of the public health implications related to a novel coronavirus pandemic. The degree to which COVID-19 will have long term implications on real estate markets is currently unknown. The underlying fundamentals of Toronto's local 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 though 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 Inflator, 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 Inflator, 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	*Variable
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	*Variable
Construction Period	*Variable
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)	*Variable
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	*Variable
Construction Period	*Variable

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 though 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 MTSAs, 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		Land Value Results & Percentage Change from Base Case	
							Current S.37/42		15% CBC	
			No. Storeys	No. Units	Tenure		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 polices 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;

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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.

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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 2020[1]), 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.

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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 development[2], 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.

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Figure 1

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

	Example Development - North York Site - NBLC Analysis					Costs of IZ / Foregone Revenue		
	Assumed Number of Units	Assumed Number of Affordable Units	City's Proposed Maximum	Market Rent	Difference	Per Month	Per Year	99-Year Span
Unit Type	*Units*			*Dollars per Month*		*$ / Month*	*$ / Year*	*$ per 99 Years*
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 million[3] 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

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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 homebuyer[4], 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-bedrom 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

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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
			Dwelling Units			
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			*Percent*			
No bedrooms	87.0%	10.2%	1.5%	0.8%	0.5%	100.0%
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.*

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> *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.

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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.

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Figure 3

Analysis of Land Values Used in NBLC Inclusionary Zoning Evaluation Report

Test Site Area	Average Unit Size *Sq. Ft.*	Number of Units	Net Saleable Area *Sq. Ft.*	GFA with 15% Gross-Up Factor *Sq. Ft.*	NBLC Existing Site Land Value	Implied Site Value ($ / sf buildable) *$ / SFB*	Condo Pricing *$ / SF*	Altus High-Level Order of Magnitude Check (10% land value relative to condo pricing) *$ / SFB*	% Difference - Altus Check vs. NBLC Implied Value *Percent*	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 (NIA)	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;

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- 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:

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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.

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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.

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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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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

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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).

		A	B-A	B
CONDO SUMMARY		**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	

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Appendix B:
CONDO SUMMARY

CONDO SUMMARY

PROJECT BUDGET SUMMARY	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**

	BUDGET VARIANCES DETAIL	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
RENTAL SUMMARY		**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

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Appendix D:
RENTAL SUMMARY

RENTAL SUMMARY

	A	B-A	B
EXECUTIVE SUMMARY - RENTAL	**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**

	BUDGET VARIANCES DETAIL	**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)**	