



STAFF REPORT

Planning

Title: Inclusionary Zoning - Recommended Policy and Implementation Directions
Report Number: IPPW2023-028
Author: Michelle Lee
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Attachments: Appendix A. Inclusionary Zoning Discussion Paper
Appendix B. Memo: Inclusionary Zoning Development Model Update
Appendix C. Engagement Summary
Ward No.: All Wards

Recommendations:

1. That Council approve report IPPW2023-028.
2. That staff, in coordination with the Cities of Kitchener and Cambridge, and the Region of Waterloo, be directed to use the policy directions in Appendix A to IPPW2023-028 (Inclusionary Zoning Discussion Paper) as the basis for further consultation with the development industry, affordable housing providers, other affected groups, and the public.
3. That staff, in coordination with the Cities of Kitchener and Cambridge, and the Region of Waterloo, be directed to develop draft Inclusionary Zoning Official Plan policies and implementing Zoning By-law provisions, for council's consideration via City initiated amendments to the Official Plan and Zoning By-law 2018-050. Such policies and provisions to be in general accordance with the directions set out in Appendix A to IPPW2023-028 (Inclusionary Zoning Discussion Paper), and have regard to input received through the consultation process.

A. Executive Summary

The Cities of Kitchener, Cambridge and Waterloo, in coordination with the Region of Waterloo, are exploring a joint Inclusionary Zoning (IZ) program. This report summarizes the work carried out to date and recommends a set of policy directions for a region-wide IZ policy.

The proposed policy directions are summarized in Table 2 of this report, and explained in more detail in the Discussion Paper attached as Appendix A. The policy directions are

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based on a set of principles and seek to balance the community objective of increasing the supply of affordable housing with market feasibility of an Inclusionary Zoning policy to promote continued viability of residential development. They also reflect draft amendments to Ontario Regulation 232/18 that set limits on the number of affordable units, minimum rents and prices and length of time that IZ affordable units that can be required. The policy directions would support a modest but meaningful number of new affordable units every year to help address housing affordability needs.

Staff are seeking Council's direction to use the policy directives contained within this report as the basis for public consultation and to report back to Council in late 2023 with the results of the consultation and draft Inclusionary Zoning Official Plan policies and implementing Zoning By-law provisions.

B. Financial Implications

Under the Development Charges Act IZ units (prorated portion) have a statutory exemption from City and Regional Development Charges. Exemptions from Community Benefits Charges and Parkland Dedication Charges for IZ units (prorated portion) are not yet in force. These exemptions would potentially create financial pressures on City and Regional budgets due to reduced revenue. This will impact City and Region capital budgets; impacts will be monitored and considered through future budgeting and updates to relevant by-laws.

C. Technology Implications

None

D. Link to Strategic Plan

(Strategic Objectives: Equity, Inclusion and a Sense of Belonging; Sustainability and the Environment; Safe, Sustainable Transportation; Healthy Community & Resilient Neighbourhoods; Infrastructure Renewal; Economic Growth & Development)

(Guiding Principles: Equity and Inclusion; Sustainability; Fiscal Responsibility; Healthy and Safe Workplace; Effective Engagement; Personal Leadership; Service Excellence)

Development of an Inclusionary Zoning (IZ) policy and program will provide the City with the authority to require private developers to construct a certain percentage of affordable housing units in developments near rapid transit stops. It aligns with the strategic goal of Healthy Community and Resilient Neighbourhoods, and specifically with the objective of increasing the amount of affordable housing in the City.

E. Previous Reports on this Topic

IPPW2023 "Affordable Housing Strategy, 2023-2033"

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IPPW2020-071 “Inclusionary Zoning - Recommended Policy and Implementation Directions

IPPW2018-008 “City of Waterloo Comments: Proposed Regulation Under the Planning Act Related to Inclusionary Zoning”

IPPW2016-071 “City of Waterloo Comments: Promoting Affordable Housing Act, 2016 (Planning Act Component)”

IPPW2015-059 “City Response to Provincial Long Term Affordable Housing Strategy Update”



Inclusionary Zoning - Recommended Policy and Implementation Directions IPPW2023-028

Introduction

Housing affordability has become a significant challenge for residents in Waterloo region and across Ontario. Inclusionary Zoning (IZ) is a planning tool that can increase the supply of affordable housing by enabling municipalities to require a certain percentage of affordable housing units be constructed within new private developments containing 10 or more dwelling units in Major Transit Station Areas (MTSAs). The Cities of Waterloo, Kitchener, and Cambridge, in collaboration with the Region of Waterloo ("WKC+R") are exploring IZ to increase the amount of affordable housing near ION rapid transit stops.

While IZ must be implemented at the area municipal level, WKC+R recognizes the importance of adopting a consistent, region-wide approach. A region-wide approach would support consistent and clear policy requirements for the development industry; create efficiencies in implementation across area municipalities through shared guidelines and agreement templates; maintain the relative attractiveness for investment in residential development across the cities MTSAs; and, centralize administration, monitoring and enforcement. Such an approach can be designed to reflect differences in market areas across the region.

This report sets out a recommended policy direction for a region-wide IZ policy. The policy directions reflect current trends in market housing prices and rents, housing construction costs, local housing supply and demand, an assessment of financial feasibility of IZ and a review of best practices across North America. A creative and flexible policy approach is recommended to ensure that an IZ program can address housing needs that aren't being met by the market, adapt to changing market conditions and to enable market innovation that will ensure affordable housing outcomes. The policy directions also reflect feedback from development industry, affordable housing providers, people facing housing affordability challenges and the general public.

Inclusionary Zoning as one Tool in the Affordable Housing Toolbox

IZ has been used successfully in municipalities across North America to create a sustainable affordable housing supply. It is different from other approaches in that it doesn't require significant government subsidy. Instead, IZ works by capturing a share of the increased land value achieved through development approvals, investment in the

ION transit system, and increasing demand for centrally located housing, and directing this toward the creation of affordable housing.

The reliance of IZ on the uplift of land values to offset the cost of the affordable units means that the program is best suited to provide moderately affordable units – housing that is affordable to moderate income households. Moderate income households are defined in this report and the attached Discussion Paper as households whose incomes fall within the 30th-60th percentile of the renter household income range. In 2021 a moderate income household would have a before tax income of between \$40,600 and \$58,900 and could include a wide range of working households including those employed as personal support workers, other healthcare workers, employees of non-profit service organizations, tradespeople and retail and restaurant workers. Many of these households have incomes that are too high to be eligible for subsidized or community housing but are too low to compete in the market. Ensuring the promotion of moderately affordable housing helps to support mixed-income, complete communities and overall community health and prosperity. It can also help create movement along the housing continuum, freeing up much needed units that are more deeply affordable for those who need them.

Because IZ is not reliant on government funding programs and is focused on moderately affordable housing, it can complement other programs that focus on other parts of the housing spectrum, such as emergency and transitional housing, deeply subsidized affordable housing, and housing with physical and mental health supports. The adoption of an IZ policy would work alongside, not in replacement of, these other programs and approaches. Staff estimate that an IZ program could result in approximately 60 more affordable units per year in the medium term.

Supporting Studies and Analyses

The Planning Act and Ontario Regulation 232/18 regulate the process by which an IZ policy can be adopted and the contents of IZ policy and by-law. WKC+R has completed or is working toward the completion of all the necessary studies and assessments required under the legislation. The studies and MTSA designations in Table 1 will help inform the development of appropriate Official Plan IZ policies to ensure that policies are both financially viable and effective.

Table 1. Provincial Requirements Prior to the Adoption of an Inclusionary Zoning Policy

Provincial Requirement	Description	Date Completed	Council reports / Ministerial decision
Housing Assessment Report	Housing supply and demand information to be considered in the development of an IZ policy.	2020	Kitchener: DSD-20-006 . Cambridge: <i>pending</i> Waterloo: IPPW2020-071

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Provincial Requirement	Description	Date Completed	Council reports / Ministerial decision
Summary: Results of both Kitchener's and Waterloo's Housing Assessment Reports confirmed that housing affordability has declined in both cities and that low and moderate income households are the most affected. In addition to planning for more supply in general, there is a specific need for more non-market housing (including supportive housing) and more primary rental housing to meet the needs of residents.			
Financial Impact Analysis and Peer Review	Analysis of the potential impacts on the housing market and financial viability of IZ.	2020	Kitchener: DSD-20-150 Cambridge: 21-130(CD) Waterloo: IPPW2020-071
	Update to the inputs into the Financial Analysis to reflect market changes.	2022	Appendix B of this report
Summary: Financial model outputs showed that financial viability was highest in "prime" market areas, and more challenging in the short term for "established" and "emerging" market areas. Gradual increases to set-aside rates and limiting IZ policies to larger buildings could help minimize negative financial impacts.			
Designation of MTSA	Delineation of MTSA's in the Region of Waterloo Official Plan indicating where IZ can be required.	2023	Minister of Municipal Affairs and Housing approval of Region of Waterloo Official Plan Amendment: ERO 019-5952

In addition to carrying out the required studies and establishing the required MTSA policies, City of Waterloo staff, in collaboration with staff from the Cities of Kitchener and Cambridge and the Region of Waterloo have:

- 1) Assessed the potential implications of Bill 23 on the feasibility of IZ;
- 2) Conducted a jurisdictional scan of best practices; and
- 3) Gathered feedback from the public and groups most likely to be impacted by IZ.

The results of this work is summarized here and detailed in the Discussion Paper in Appendix A to this report.

1. **Bill 23 More Homes Built Faster Act, 2022:** Proposed changes to O.Reg 232/18 will: 1) limit to the proportion of units or floor area of a building that can be required to be affordable to 5%; 2) limit the duration the IZ units are required to be affordable to 25 years; and 3) limit the minimum required rents for affordable rental units to 80% Average Market Rent* and the minimum required ownership cost to 80% Average Market Resale Price. The Development Charges (DC) Act and Planning Act were recently amended to exempt affordable residential units secured through IZ from paying DCs, CBCs and parkland charges. The recommended directions in this report comply with the proposed regulations. Taking all of these proposed changes into account, staff are of the opinion that the recommended IZ direction would provide a modest but meaningful supply of

affordable housing that could have a significant impact on the affordable housing supply over time.

*Average Market Rent (AMR) is a figure published by CMHC that represents the rents across the entire private rental housing stock including older stock and units rented well below market due to rent control. Rents in new market developments are significantly higher than AMR.

2. **Jurisdictional Scan:** Key findings from the jurisdictional scan suggest that IZ works most effectively in strong housing markets and is best used to secure moderately affordable housing. Density bonusing or upzoning are often used in tandem with IZ programs to ensure financial viability. The implementation of an IZ policy should be coordinated with comprehensive updates to Station Area planning that optimizes MTSA lands and is context sensitive, and has regard to offsetting financial impacts on the land market where appropriate. Centralized administration and enforcement are important to ensure consistent and effective implementation over the long term.
3. **Public and Interest Group Feedback:** Staff consulted with the representatives from the development industry, housing advocacy groups, non-profit housing providers, moderate income individuals likely to benefit from an IZ program and the public at large. The results of this engagement is summarized in Appendix C.

Policy Directions

The proposed policy directions summarized in Table 2 seek to balance community objectives to increase the supply of affordable housing with market feasibility to ensure continued viability of residential development. They also reflect draft amendments to Ontario Regulation 232/18 that set limits on the number of affordable units, minimum rents and prices and length of time that affordable units that can be required. They are built around the following principles for an IZ program:

1. **Moderate affordability** – Secure housing that is affordable to moderate income households and is not otherwise being provided by the market in a substantive way.
2. **Enhanced relationship with development community**– To achieve housing targets, WKC+R needs developers to build new affordable units under IZ. Residential development projects must be viable.
3. **Minimize land market disruption** – Provide early signals and transition time (where appropriate) for the land market to adjust to IZ.
4. **Long term sustainability** – IZ policy should be viable without subsidies or significant incentives.
5. **Capture value in new density** – Direct some of the increased land value achieved through development approvals and investment in the ION transit system toward affordable housing.

Table 2. Recommended Policy Directions

Policy Parameter	Policy Direction	Rationale
1. Location Provincial Requirement: An IZ policy can only be adopted within an MTSA or an area subject to a Community Planning Permit System as directed by the Minister	An IZ policy should apply to all 24 MTSA in Waterloo Region, with different requirements for emerging, established and prime market areas (See #4).	Provides consistent and clear policy requirements for the development industry, implementation and monitoring efficiencies across area municipalities while reflecting station areas' different capacities to absorb the financial impact of IZ, and creates a level playing field for investment and development across the region.
2. Size of Development Provincial Requirement: Limited to buildings with 10 or more residential units	Buildings with 50 or more residential units	Focusing program on larger developments will help avoid potential negative impacts on the financial feasibility of missing middle and medium density housing types, recognizing that these built forms already face significant financial obstacles in MTSA's.
3. Affordable Unit Tenure	Affordable units should be provided as rental units, either within a condominium building or within a purpose-built rental building.	Proposed amendments to O.Reg 232/18 would require an ownership unit to be a minimum of 80% Average Market Resale Price (AMRP), which is affordable to only those households in the top 20% of the income range. These are high income households whose housing needs can already be met through the market. Focusing on rental tenure would ensure that the program addresses the needs of moderate rather than high income households.
4. Set Aside Rate Provincial Requirement (Proposed): Maximum 5% of total units or Gross Floor Area	Proportion of GFA dedicated to affordable units should start low and transition slowly upward to a maximum of 5%, in accordance with the local market conditions. MTSAs within Prime Market Areas should start at 2% and increase to 5% by 2031.	Proposed amendments to O.Reg 232/18 limit set aside rate to 5%. A low initial set aside rate and relatively slow transition to the maximum rate will help avoid market disruption and signal to the market future policy intentions.

Policy Parameter	Policy Direction	Rationale
	- MTSAs within Established Market Areas should start at 1% and increase to 3% by 2031. - MTSAs within Emerging Market Areas should start at 0% and increase to 2% by 2031.	Financial feasibility modeling suggests that stronger (prime) markets can better absorb the costs associated with an IZ policy compared with weaker (emerging) markets. This will help ensure development viability in MTSA that is crucial to meeting Cities' housing pledges.
5. Level of Affordability Provincial Requirement (Proposed): Policy can't require IZ unit rents to be less than 80% Average Market Rent or IZ unit prices to be less than 80% Average Market Resale Price.	- Affordable rental units in condo buildings should not exceed 100% Average Market Rent. (\$1,063-\$1,590 in 2022 depending on unit size). - Affordable rental units in purpose-built rental buildings should not exceed 30% of the median renter household income in the regional market area as defined by CMHC, or 100% Average Market Rent, whichever is greater (In 2023, this would be \$1,425 - \$1,482, depending on unit size).	The proposed affordable rents also balance community objectives to maximize affordability with financial feasibility for housing providers. Rents have a significant impact on the financial feasibility of a project. 100% AMR can be \$500- \$700 per month lower than what a renter would expect to pay for a vacant unit ¹ , because the calculation of AMR includes older, rent-controlled units that are occupied and are unavailable to new renters. Once vacated, the rents for these occupied units can increase significantly. As a result, 100% AMR still represents a discounted rate well below the rents available in the market. The proposed rents would provide units that are affordable to moderate income households consistent with most other jurisdictions using IZ. Moderate income households' affordability needs are generally not well served by the market or government funded housing programs. The higher proposed affordable rent for purpose-built rental buildings aligns with CMHC's Mortgage Loan Insurance Select program for rental

Policy Parameter	Policy Direction	Rationale
		developments. The alignment would streamline approvals processes, limit financial impact on desirable purpose-built rentals (which are typically more financially challenging to develop than condominium developments) and would ensure that units that are affordable to moderate income households are provided in purpose-built rentals.
6. Eligible Households	Low or moderate income households, having a gross annual income at or below the 60 th percentile of regional renter household income range, and with a maximum income at time of occupancy of 3.3 times the IZ unit rent.	Eligibility requirements would ensure that affordable units are only available to low and moderate income households.
7. Duration Provincial Requirement (Proposed): Maximum of 25 years	IZ units should be maintained as affordable for 25 years.	Duration maximizes positive impact of the program on the affordable housing supply within the limits of the proposed regulations. The implementation program could support options for affordability beyond 25 years where IZ unit units are owned by a third sector provider (see #10) ² .
8. Incentives	• IZ units are exempt from Development Charges, and will be exempt from Community Benefits Charges and Parkland Dedication Charges upon proclamation of the Legislation. • Minimum required residential unit parking rates of between 0 and 0.7 spaces/unit for developments within MTSAs should be considered where possible, with Kitchener targeting zero spaces/unit within MTSAs. No parking	The high cost of providing structured parking has a significant impact on the financial feasibility of a development and limits the potential yield of affordable and regular units in areas well served by transit. Reduction in overall residential parking rates, combined with the removal of parking minimums for affordable units would help to offset the cost of providing affordable units and is appropriate given the proximity of the developments to rapid transit and alignment with

Policy Parameter	Policy Direction	Rationale
	should be required for the IZ affordable units. Additional heights and densities for developments in MTSA should be considered where appropriate.	other city objectives (e.g., greenhouse gas reduction and active transportation targets and commitments). Increases to development heights and densities in MTSAs concurrent with the introduction of an IZ program can help offset the financial impact of the program.
9. Offsite Units	The required affordable units for a new development may be provided in a development located on an alternative site, provided that the alternative site is in an MTSA within the same municipality.	Enabling offsite units provides opportunities for creativity, partnerships and cost-sharing to create efficiencies and minimize pro forma impacts of the affordable units, while still achieving the intent of the IZ program to create high quality affordable units. Opportunities include developers partnering with third sector organizations to create offsite units within a third sector-owned² building and locating affordable units within buildings having lower construction costs, on lower cost sites and with more favorable financing. This approach can leverage more affordable units, more deeply affordable units, longer affordability periods and opportunities for on-site supports when compared to onsite units alone.
10. Administration and Implementation	The Region of Waterloo has expressed an interest in taking a leading role in monitoring, enforcement and waitlist management. The Cities of Kitchener, Cambridge and Waterloo will secure affordable units through the development review process, in accordance with IZ Implementation Guideline Document (to be developed). Should the IZ program require rental as the tenure for	Centralized administration by government or a single mission-aligned, arm's length organization with sufficient operational funds is required to ensure consistent monitoring and enforcement of the program. Enabling third sector ownership and operation of affordable rental units within condo developments will address condominium developers' concerns about

Policy Parameter	Policy Direction	Rationale
	affordable units (see item #3), implementation should include pathways for a third sector to own affordable units created in a condominium building. The Region may be able to assist with financing to support third sector ownership.	capacity to operate affordable units and will ensure affordability beyond 25 years.
11. Monitoring Provincial Requirement: Report every two years (biennially) and update assessment report every 5 years	Report to council on successes and challenges of IZ and adjust policy requirements as needed	The financial impact model that supports the proposed policy direction is based on current market conditions and proposed Provincial regulations. Updates to the policy may be warranted to secure more or fewer IZ units, different affordability levels, etc, in response to market and regulatory changes.

¹ CMHC. (2023). Rental Market Survey Data Tables for Kitchener-Cambridge-Waterloo. October 2022. URL: <https://www.cmhc-schl.gc.ca/en/professionals/housing-markets-data-and-research/housing-data/data-tables/rental-market/rental-market-report-data-tables>

² Third sector refers to non-profit, co-operative, and other types of mission-aligned affordable housing providers

Table 3. Recommended Set Aside Rates

Market Area and MTSA	Set Aside Rate and Date of Occupancy		
	2024-2027	2028-2030	2031+
Prime Market Areas - University of Waterloo - Laurier - Waterloo Park - Central Station - Victoria Park/Kitchener City Hall - Queen/Fredrick	2%	3%	5%
Established Market Areas - Conestoga - Research & Technology Park - Waterloo Public Square/ Willis Way - Allen - Grand River Hospital - Kitchener Market - Main - Downtown Cambridge	1%	2%	3%

Market Area and MTSA	Set Aside Rate and Date of Occupancy		
	2024-2027	2028-2030	2031+
Emerging Market Areas • Northfield • Borden • Mill • Block Line • Fairway • Sportsworld • Preston • Pinebush • Cambridge Centre Mall • Can-Amera • Delta	0%	1%	2%

Community Engagement

The Cities and Region of Waterloo commissioned the development of two videos ([Video 1](#), [Video 2](#)) to help explain affordable housing and IZ in plain terms. Consultation was both in person and online, including interviews, surveys, focus groups, presentations and meetings with development industry representatives, the Waterloo Region Home Builders Association, moderate income earners, affordable housing providers, housing advocates and the general public. Approximately 1,100 individuals have been engaged in the project. Appendix C summarizes the key themes from the engagement activities undertaken since December 2022.

Next Steps

Consultation on the initial policy directions is proposed to start in July and continue into early fall 2023. Staff will target December 2023 for a summary report of the consultation along with a draft IZ Official Plan and Zoning Bylaw Amendments and a proposed administrative process and implementation guidelines.

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Inclusionary Zoning Policy and Program Directions for Cambridge, Kitchener and Waterloo

Discussion Paper

June 2023

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Executive Summary

The Cities of Kitchener, Cambridge and Waterloo, in partnership with the Region of Waterloo (WKC+R) are exploring Inclusionary Zoning (IZ) as a means to increase the amount of affordable housing near the ION rapid transit stops. IZ is a tool that allows municipalities to require a certain percentage of affordable housing units within new private developments containing 10 or more dwelling units in Major Transit Station Areas (MTSAs). The tool has been implemented successfully in a number of jurisdictions across North America.

IZ is unique from other affordable housing programs in that it can provide new affordable units over time without reliance on significant government subsidies. It also can help ensure the creation of new affordable units in areas near light rail transit, which can help to counter the impacts of rising land values and gentrification that are typically associated with large transit investments. While IZ can't address all the region's housing challenges, it can be used to create a sustainable supply of affordable units for moderate income households who are unable to afford market rents. More moderate cost housing can take pressure off the subsidized housing system by providing affordable housing options for those households who have the capacity and desire to leave the subsidized housing system. Used in combination with other tools, such as ongoing government investments in emergency, temporary and subsidized housing, and adopting planning policies and regulations that enable an appropriate housing supply, IZ is a promising tool to support a healthy housing system.

This discussion paper reviews and recommends policy options for a coordinated, Regional IZ policy and program. Policy recommendations are based on legislative requirements, a review of best practices from other jurisdictions, feedback obtained through public engagement, and modelling of the potential financial impacts on the local housing market. Key recommended policy and implementation directions and rationale are identified below:

1. *Locations:* An IZ policy should apply to new residential developments in all 24 MTSAs in Waterloo Region. Policy requirements should be tailored to the market for each MTSA. Rationale: To ensure the program maximizes IZ unit potential in strong markets and signals policy intentions to emerging markets to inform private market land transactions.
2. *Building size:* IZ should apply only to buildings with 50 or more residential units (exact threshold to be determined as part of development of draft zoning). Rationale: Focus program on larger developments to avoid potential negative impacts on the financial feasibility of missing middle and medium density housing types, recognizing that these built forms already face significant financial obstacles in MTSAs.
3. *Affordable unit tenure:* Affordable units should be provided as rental units within a condominium building (see 10. Administration) or within a purpose-built rental building. Rationale: Proposed Provincial IZ regulations set limits on minimum affordable rents and prices. While the proposed minimum of 80% Average Market Rent (AMR) is affordable to households in the low and moderate income range, the proposed minimum of 80% Average Market Resale Price (AMRP) for an affordable ownership IZ unit would be affordable to only those households in the top 20th percentile of the income range. Ownership units within the 80% AMRP bracket are already provided by the market without the need for an IZ policy and associated

administration and enforcement.

4. *Set-aside rate*: Proportion of units or Gross Floor Area to be affordable should start low and transition slowly upward to a maximum of 5%, in accordance with the local market conditions. MTSAs considered to fall within *Prime Market Areas* should start at 1% and increase to 5% by 2031; MTSAs within *Established Market Areas* should start at 1% and increase to 3% by 2031; MTSAs within *Emerging Market Areas* should start at 0% and increase to 2% by 2031. Rationale: Proposed amendments to O. Reg. 232/18 limit set-aside rate to 5%. A low initial set-aside rate and relatively slow transition to the maximum rate will help avoid market disruption and signal to the market future policy intentions. Financial feasibility modeling suggests that stronger (prime) markets can better absorb the costs associated with an IZ policy compared with weaker (emerging) markets.
5. *Level of Affordability*: Affordable rental units in condo buildings should not exceed 100% Average Market Rent. Affordable rental units in purpose-built rental buildings should not exceed the greater of MLI select rent (currently \$1,425) or 100% of average market rent. Rationale: A minimum affordability threshold of 100% AMR (proposed for condominiums) falls within the limits proposed by the Province and provides rental units that are affordable to some low and most moderate income households. The proposed affordable rents balance city objectives for greater affordability with financial feasibility for housing providers. The slightly higher proposed affordable rent for purpose-built rental buildings aligns with Canadian Mortgage and Housing Corporation's (CMHC) Mortgage Loan Insurance Select program for rental developments. Alignment with this program can help streamline project planning and design, and limit financial impact on purpose-built rentals which are typically more financially challenging to develop than condominium developments. This approach can ensure the provision of some units that are affordable to moderate income households in purpose-built rentals.
6. *Eligible households*: Households eligible for the affordable units should be low or moderate income households, having a gross annual income at or below the 60th percentile of regional renter household income range; and with a maximum income at time of occupancy of 3.3 times the IZ unit rent. In 2021, a moderate income household would have a before tax income of between \$40,600 and \$58,900.
7. *Duration that units would be affordable*: Affordable units should be maintained as affordable for 25 years. Rationale: Proposed amendments to O.Reg 232/18 limit duration of affordability to 25 years. A shorter term of affordability would limit the positive impact of the program on the affordable housing supply. The implementation program will support options for affordability beyond 25 years where IZ units are owned by the third (non-for-profit, co-operative and other mission-aligned) sector (see #10).
8. *Incentives*: Affordable units provided through IZ are exempt from Development Charges. IZ units (prorated portion) will also be exempted from Community Benefits Charges and Parkland Dedication Charges but these exemptions are not yet in force. Minimum required residential unit parking rates of between 0 and 0.7 spaces/unit for developments within MTSAs should be

considered where possible, with Kitchener targeting zero spaces/unit within MTSA's. No parking should be required for the IZ affordable units.

9. Additional heights and densities for developments in MTSA's should be considered through comprehensive updates to the planning framework as well as on a site-specific basis, where appropriate. Rationale: The high cost of providing structured parking has a significant impact on the financial feasibility of a development and limits the potential yield of affordable and regular units in areas well served by transit. Reduction in overall residential parking rates, combined with the removal of parking minimums for affordable units would help to offset the cost of providing affordable units and is appropriate given the proximity of the developments to rapid transit and alignment with other city objectives (e.g., greenhouse gas emissions reduction targets and commitments). Increases to development heights and densities concurrent with the introduction of an IZ program can help offset the financial impact of the program, particularly for developers who purchased properties prior to IZ program adoption.
10. *Offsite units:* The required affordable units identified through a development application may be provided in a development located on an alternative site, provided that the alternative site is in an MTSA within the same municipality. Rationale: Offsite units are a crucial option to make IZ rental units work for condominium developments. They provide opportunities for creativity, partnerships and cost-sharing to create efficiencies and minimize pro forma impacts of the affordable units, while still achieving the intent of the IZ program to create high quality affordable units in mixed income communities near transit. Opportunities could include developers partnering with non-profit organizations to create offsite units within a non-profit owned building, and locating affordable units within buildings having lower construction costs, or on lower cost sites. The provision of offsite units was a concept that was widely supported by both representatives from the development industry and affordable housing providers as a tool to create affordable units that could be constructed and maintained in a cost-effective manner. This approach can leverage more affordable units, more deeply affordable units, longer affordability periods and opportunities for on-site support as compared to onsite units alone.
11. *Administration and implementation:* The Region of Waterloo has expressed an interest in taking a leading role in monitoring, enforcement and waitlist management. The Cities of Kitchener, Cambridge and Waterloo will secure affordable units through the development review process, in accordance with IZ Implementation Guideline Document (to be developed). Should the IZ program require rental as the tenure for affordable units (see item #3), implementation should include pathways for a third sector (non-profit, co-operative or other mission aligned housing provider) to own affordable units created in a condominium building. The Region may be able to assist with financing to support third sector ownership. Rationale: Centralized administration by government or a single mission-aligned, arm's length organization with sufficient operational funds is required to ensure consistent monitoring and enforcement of the program. Enabling third sector ownership and operation of affordable rental units within condo developments will address condominium developers' concerns about capacity to operate affordable units and will ensure affordability beyond 25 years.

12. *Monitoring and reporting:* An IZ program should be reviewed and modified as necessary, every two years to respond to land development economics and changing market conditions. If requirements are too lax during periods of strong development economics, the program will miss opportunities to deliver on affordability outcomes. If it is too demanding in weak economic conditions, it could stifle the development of much needed housing supply, affordable or otherwise. WKC+R will report biennially on the IZ program and table potential amendments to these programs to optimize the program and respond to emerging issues and trends.

Recommended Set-aside Rates

Market Area and MTSA	Set-aside Rate and Date of Occupancy*		
	2024-2027	2028-2030	2031+
Prime Market Areas - University of Waterloo - Laurier - Waterloo Park - Central Station - Victoria Park/Kitchener City Hall - Queen/Fredrick	2%	3%	5%
Established Market Areas - Conestoga - Research & Technology Park - Waterloo Public Square/ Willis Way - Allen - Grand River Hospital - Kitchener Market - Main - Downtown Cambridge	1%	2%	3%
Emerging Market Areas - Northfield - Borden - Mill - Block Line - Fairway - Sportsworld - Preston - Pinebush - Cambridge Centre Mall - Can-Amera - Delta	0%	1%	2%

*Set-aside rate applies to total GFA of proposed development

Recommended Maximum Rents for IZ units

Unit Type	2022 Maximum Rent for Affordable Rental Unit	
Unit Type	Purpose-built Rental Building*	Condominium Building**
Bachelor	\$1,425	\$1,075

Unit Type	2022 Maximum Rent for Affordable Rental Unit	
Unit Type	Purpose-built Rental Building*	Condominium Building**
1 bedroom	\$1,425	\$1,245
2 bedroom	\$1,454	\$1,469
3+ bedroom	\$1,689	\$1,689

*Calculated as the greater of 100% AMR or MLI Select definition of affordability (currently \$1,425).

**Calculated as 100% AMR

Introduction

Over the next 30 years, Waterloo Region's population is forecasted to grow to 923,000 people, representing an increase of 306,000 new permanent residents and non-permanent residents or about 121,080 new households. The Region of Waterloo Official Plan directs 87% of this growth (105,975 households) to the Cities of Kitchener, Waterloo and Cambridge. A corresponding 105,975 new housing units will be required to accommodate the forecasted growth, with the majority of units focused in built-up areas, and in particular, within strategic growth areas such as Major Transit Station Areas (MTSAs). To accelerate the building of new housing to address current supply challenges as well as the forecasted growth, the Province has asked municipalities to commit to a housing pledge to achieve 70,000 of the total 105,975 units by 2031 (35,000 new units in Kitchener, 16,000 new units in Waterloo, and 19,000 new units in Cambridge).

To meet the needs of current and future residents, the Region of Waterloo has set a needs-based target of 30% of all new housing to be affordable to low and moderate income households. The magnitude of the need for affordable housing now and in the future is great. Approximately 22% of existing households (47,860 households) in the Cities of Kitchener, Cambridge, Waterloo live in housing that costs more than 30% of their gross annual income on housing, with tenant households more likely to live in unaffordable housing (36.9%) than homeowners (13.9%). An additional 31,790 new affordable units will be needed by 2051 to meet the Region's 30% affordable housing target. These statistics likely underestimate the magnitude of the housing affordability challenge – they do not account for individuals who would prefer to live on their own but who must live with family or roommates to keep housing costs down; households that would like to move to the Region but can't afford to; or households that were forced to leave the region to find more affordable housing.

A portion of the new affordable housing units will need to be constructed within the region's 24 MTSAs. Access to transit is an important, often necessary, housing consideration for households with low and moderate incomes. Such households may not own personal vehicles or may choose to reduce their household costs by relying on transit rather than cars. Housing near high-quality transit can provide low and moderate income households with affordable access to jobs, shopping and amenities. In the Kitchener-Cambridge-Waterloo, about 14% of lower income households use public transit compared to 4% of higher income householdsⁱ. The creation of affordable housing within MTSAs ensures that public investments in higher order transit have the potential to benefit everyone.

Despite greater reliance of low and moderate income households on transit, areas served by high quality transit also tend to be unaffordable places to live. Public Investment in rapid transit stimulates private investment and the development of new, less affordable housing which displaces low income households. Ontario municipalities have few tools available to them to ensure the provision of some affordable housing within MTSAs. This discussion paper explores a tool called "Inclusionary Zoning" (IZ) which leverages private and public investment for the creation of affordable housing in MTSAs.

IZ as a Tool to Create Affordable Housing

IZ is a tool enabled through the Planning Act that allows municipalities to require private developers to include a certain percentage of affordable housing units within new developments containing 10 or more dwelling units and located in an MTSA. The tool can be used to create affordable rental and/or ownership units. The level of affordability, the proportion of affordable units, and the duration that

those units must remain affordable are determined by the municipality based on local housing needs and market feasibility and must be set out in the IZ policy and regulations.

What differentiates IZ from other affordable housing planning tools is that it gives municipalities the authority to require - as opposed to encourage or incentivize - private developers to build affordable housing as part of their residential developments. Used in combination with other affordable housing policies and incentives, this tool has been demonstrated in the United States and other jurisdictions to be effective in providing affordable housing for certain types of households, such as working households with moderate incomes that have been priced out of the market due to rising housing costs.

IZ works by allowing municipalities to leverage the additional land value achieved through public investment (e.g. government investment in ION), increased density, development approvals and growing demand for centrally located housing near transit (and other amenities), to require the provision of affordable housing. IZ directs a portion of this enhanced land value toward the creation of affordable units. Under the right economic conditions, IZ programs can sustain themselves over the long term without reliance on government grants, although many programs do offer some form of cost offset for the developer of IZ units, such as additional density or height permissions, modified development standards, and/or fee waiversⁱⁱ.

Because IZ programs can reduce revenues for developers as a result of lower rents and sale prices for the affordable units, the programs must be carefully designed to ensure that the overall residential development continues to be financially viable for private market housing providers. Areas with strong housing markets have been found to be best suited for IZ programs. Key program considerations that affect the financial viability of IZ include:

- Set-aside rate (proportion of units or floor area of a building required to be affordable)
- Level of affordability (the discount in price or rent as compared to the market)
- Duration of affordability (the length of time an affordable unit must remain affordable)
- Tenure of affordable units (rental vs. ownership)

Where the economics of development cannot support IZ on its own, a municipality can adopt financial and planning measures to assist in the financial viability of the project. These measures can also be used to achieve greater program impact, such as increasing the set-aside rate, the level of affordability, or the duration of affordability. Measures can include financial incentives such as reducing or deferring fees and charges, and supportive planning permissions such as increased height or density, and/or reduced parking requirements. The gradual phase-in of IZ policies and/or the use of temporary financial incentives can also be used to offset development pro forma impacts until the market adjusts to the new policy framework.

Benefits and Limitations of IZ

While IZ is a promising tool to increase the amount of moderately affordable housing within stations areas, it does not replace other tools and approaches that can help address the full range of housing needs across the housing spectrum, such as emergency and temporary housing, deeply affordable housing and supportive housing. IZ has been found in other jurisdictions to be best suited for the creation of a sustainable supply of moderately affordable housing for people who can't afford market rate rents and prices, but whose incomes disqualify them for subsidized affordable housing (e.g. Region

of Waterloo community housing). Used in combination with other tools and programs, such as federally and Provincially funded affordable housing, municipal grants and programs and supportive local planning policies and regulations, IZ has the potential to create a continual supply of affordable housing to support households that have been priced out of the housing market.

A key benefit of IZ is its potential to yield a meaningful supply of affordable housing over the long term without reliance on municipal funding or subsidies. Because IZ requires affordable units to be created within new residential developments, it is most effective in strong market areas that are experiencing residential growth. Since 2011, the fastest growing areas within the Region have been located in close proximity to a developing or established LRT stop. As much as 42% of the Region's population growth occurred in the Central Transit Corridor between 2018 and 2019 aloneⁱⁱ. Strong demand for housing within MTSAs is anticipated to continue.

Based on household growth forecasts, intensification targets and anticipated Provincial IZ regulations, an IZ program could be expected to produce approximately 60 affordable units per year in the medium term (starting in 2031) and 99 units affordable units per year over the long term across the Region. Table 1 provides a further breakdown of the anticipated annual yield of IZ units by municipality under a scenario that assumes a 2-3% set-aside rate in the medium term and a 5% set-aside rate in the long term.

Table 1. Estimated annual yield of affordable units under IZ program, by municipality

Municipality	Total units in MTSAs* (units/year)	Estimated IZ units in medium term ** (units/year)	Estimated IZ units in long term (units/year)***
Kitchener	698	27	35
Cambridge	741	25	37
Waterloo	532	12	27
Total	1,971	60	99

* Forecasted number of units within 50+ unit buildings located within MTSAs

** Forecasted number of IZ units at proposed 2031 set-aside rates averaged across MTSAs

*** Forecasted number of IZ units at max (5%) set-aside rates

An additional benefit of IZ is that it can ensure the creation of affordable units in locations that are close to services, amenities, and higher order transit. Non-profit affordable housing providers have reported challenges with acquiring land in MTSAs due to high land values and an inability to compete with private market builders. An IZ program can address this issue by ensuring that affordable housing is included in all developments of a certain size within MTSAs. To help offset the cost of providing affordable units at below market prices or rents, IZ regulations can put downward pressure on land prices, much like any other zoning regulation or site conditions that reduces development value of a property. Exemptions from Development Charges, Community Benefit Charges and Parkland Charges for affordable units created through an IZ policy can further help offset the cost of providing affordable units. Municipalities can provide additional incentives to ensure development feasibility in certain market areas, or to achieve specific affordable housing objectives.

While IZ can't address all of the region's housing challenges, it can be used to create a sustainable supply of affordable units for moderate income households who can't afford market rents but whose incomes are too high to be eligible for subsidized housing (e.g. Region of Waterloo community housing). By increasing the supply of affordable housing for moderate income households, IZ can also help relieve the pressure on the limited subsidized housing supply by providing affordable options for households who have the desire and financial capacity to move out of subsidized housing. Used in combination with other tools, such as investments in more emergency, temporary and subsidized housing, IZ is a promising tool to support a healthier housing system

Legislative Framework

The legislative authority for IZ is included within Planning Act sections 16(4-13), 16(24.1.2-24.1.3); 16(36.1.2); 34(11.0.6); 34(19.3-19.3.1); 35.2(1-9) and Ontario regulation 232/18. Among other things it:

1. Prescribes that IZ can only be applied within approved Protected Major Transit Stations within upper tier or single tier Official Plans; or within community planning permit areas that are mandated by the Province
2. Prescribes IZ policies must be preceded by an assessment report that includes specified content and analysis and must be updated every 5 years
3. Sets out the prescribed content and details of IZ Official Plan policies and Zoning By-laws
4. Allows for by-laws and policies to include incentives and other standards that are not prescribed by the Planning Act
5. Requires municipalities to report on IZ biennially

In October 2022, the Province released proposed regulatory changes for comment. The detailed language of these regulations has yet to be released and are not yet in force and effect.

The proposed regulation would:

- Limit the set-aside rate (proportion of units that can be required to be affordable) to 5%
- Limit the maximum time period for IZ units to be maintained as affordable to 25 years
- Limit the minimum rent of IZ affordable rental units to 80% of average market rent
- Limit the minimum price of IZ affordable ownership units to 80% of average resale price.

The proposed lower threshold for IZ unit rents is below the current shared definition of affordable included in the PPS, Region Official Plan and City Official Plans and generally align with staff's proposed approach to the maximum rent that can be charged for IZ rental units. The proposed minimum ownership price for IZ units is expected to be significantly higher than current shared definition of affordable from the 2020 Provincial Policy Statement, Regional and City Official Plans and has had significant impact on staff's proposed approach. Although uncertainty remains regarding the details of price and rent limits, staff expect that the Table 2 values for 2022 will be implemented by the Province.

Table 2. Affordable Rents and Prices under Current Definitions and Proposed Provincial O. Reg. 232/18

Unit type	Current shared definition of affordable	Proposed Provincial regulations maximum IZ unit price/rent
	Affordable Rent	
Bach	\$1,063	\$860
1BR	\$1,240	\$996
2BR	\$1,454	\$1,175
3BR	\$1,470*	\$1,351
	Affordable Price	
	\$385,500*	\$512,309*

*price based on 2021 figures, rents based on 2022 figures

Details of the analysis by WKC+R and comments on the proposed changes are included in Kitchener Report [DSD-2022-501](#). The recommendations in this discussion paper assume that the proposed Provincial regulation will come into force as drafted.

As of November 2022, IZ units are exempt from paying Development Charges. Recent legislative changes also exempt IZ units (prorated portion) from Community Benefits Charges and Parkland Dedication Charges but the exemptions are not yet in force.

This discussion paper outlines how each of these legislative requirements for IZ was or will be addressed. This is itemized further in Appendix 2.

MTSA Planning Framework

The Planning Act requires municipalities to delineate MTSA's in their Official Plans prior to or concurrent with the adoption of an IZ policy and by-law. In addition to delineating MTSA's, municipalities must also identify: (a) minimum density requirements (residents and jobs) planned for each station area, (b) permitted land uses, and permitted buildings or structures on lands in each station area, and (c) minimum densities for buildings and structures on lands in each station area. Prior to the Province's enactment of More Homes Built Faster Act in 2022, the Planning Act required the MTSA provisions to be addressed through the adoption of an amendment to the Region of Waterloo's Official Plan.

MTSA boundaries

MTSA boundaries were delineated by the Region of Waterloo as part of an amendment to the Region of Waterloo Official Plan (ROPA 6). ROPA 6 is now in effect, following the adoption by Regional Council in August 2022 and approval by the Minister of Municipal Affairs and Housing on April 11, 2023. ROPA 6 identifies 24 Major Transit Station Areas across Waterloo, Kitchener and Cambridge. The station areas include lands around transit stops for both Stage 1 and planned Stage 2 ION light rail transit route. Each MTSA typically includes lands within a 500 to 800 metre radius of the transit stop, representing about a 10-minute walk. Their precise boundaries are shown in Figures 1, 2, and 3.

Once changes to Provincial legislation removing the Region of Waterloo's planning responsibilities come into effect, lower tier municipalities will be required adopt the MTSA provisions directly within their own official plans to implement IZ. Based on communications with MMAH, staff anticipate that the timing

for removal of the Region’s planning authority will be winter 2024 at the earliest. The amended official plans would then require approval by the Minister of Municipal Affairs and Housing (MMAH) before the plan and any IZ policies can be implemented. Until such time as these changes are in effect, the Minister’s approval of ROPA 6 enables IZ across all 24 MTSAs.

MTSA minimum required densities

In addition to delineating MTSA boundaries, ROPA 6 includes minimum density requirements for each station area. All but three MTSAs are required to plan to achieve a minimum density of 160 residents and jobs per hectare. In many MTSAs, the planned density would enable significant residential growth to occur in medium and high density buildings where IZ can apply.

Permitted land uses, buildings and structures and associated densities within MTSAs

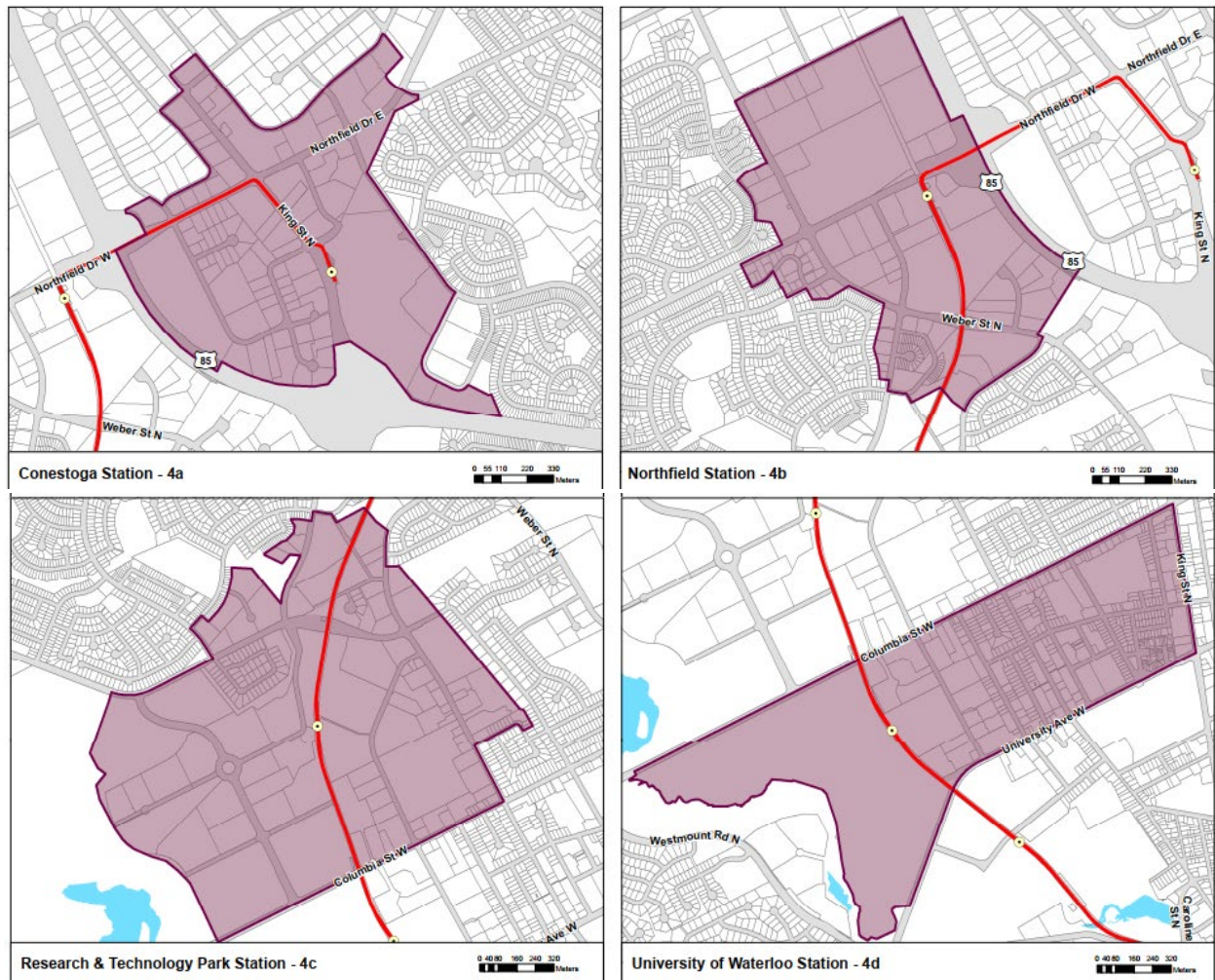
The Cities of Kitchener, Cambridge and Waterloo will be required to identify the permitted land uses, buildings and structures, and the minimum densities for those buildings and structures within each designated MTSA. While some of these requirements are already in place through existing Official Plans and zoning by-laws, the Cities will need to review the current permitted uses in the context of the minimum required densities in each MTSA and amend their planning frameworks if necessary to meet the targets.

City of Waterloo

City of Waterloo contains eight MTSAs.

1. Conestoga
2. Northfield
3. Research & Technology Park
4. University of Waterloo
5. Laurier - Waterloo Park
6. Waterloo Public Square
7. Willis Way
8. Allen

Figure 1. City of Waterloo MTSAs as per the Region of Waterloo Official Plan





Waterloo City Council adopted Station Area Plans for five of the eight MTSAs (Conestoga, Northfield, R&T Park, University of Waterloo and Laurier-Waterloo Park) and incorporated these areas into the Official Plan in 2017 (Region of Waterloo approval in 2018). The remaining MTSAs are located within the City's Urban Growth Centre and were deemed to already have a robust planning framework to support intensification and a mix of uses, including residential uses. An updated Zoning By-law was approved in 2018 to reflect the changes introduced through the Station Area Plans.

Opportunities for residential development and the application of IZ is constrained in a number of Waterloo's MTSAs due to limited land available for residential uses. A significant proportion of the lands within the Northfield, the Research and Technology Park and the University of Waterloo MTSAs are designated for employment which prohibits residential uses. Employment lands and open space make up a large proportion of the Laurier - Waterloo Park MTSAs. The MTSAs with the greatest potential for new residential development are Conestoga, Waterloo Public Square and Willis Way and Allen. The R&T Park, Northfield and Conestoga MTSAs may have additional potential for a mix of uses that include residential uses, subject to a review of employment lands that have been removed from the Regionally designated Employment lands as part of a recent Municipal Comprehensive Review.

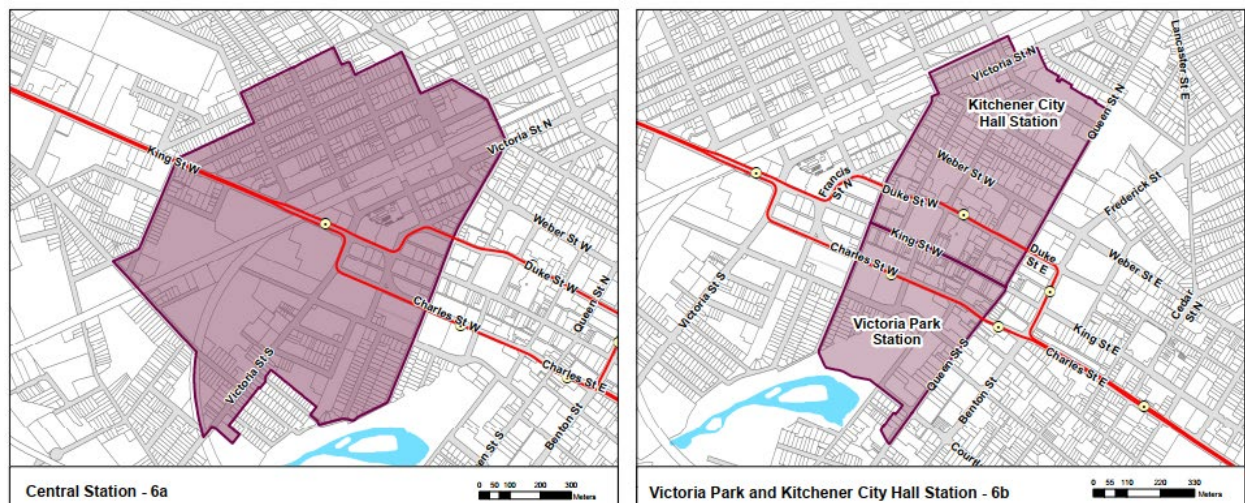
Potential timing for the adoption of an IZ Policy and zoning regulation would align with the City's review and update of its Official Plan. These updates will include amendments to the station area boundaries and the addition of the 3 Uptown station areas, in accordance with ROPA 6. Updates to the Official Plan are proposed to be brought to council in three phases, starting the fall 2023 and continuing into 2024. Detailed timing for the release of updated MTSA policies is outlined in Table 3.

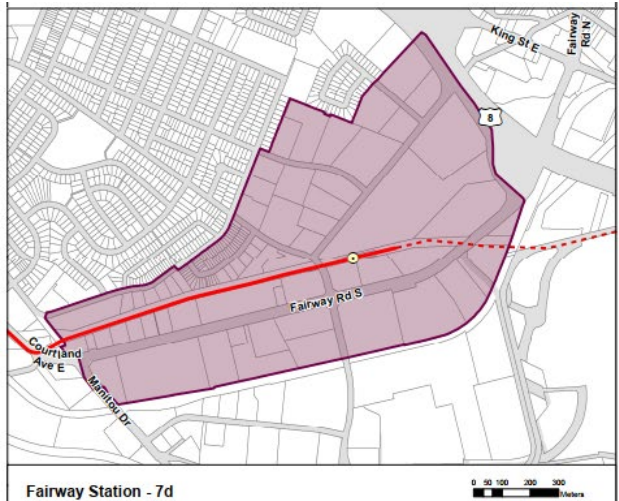
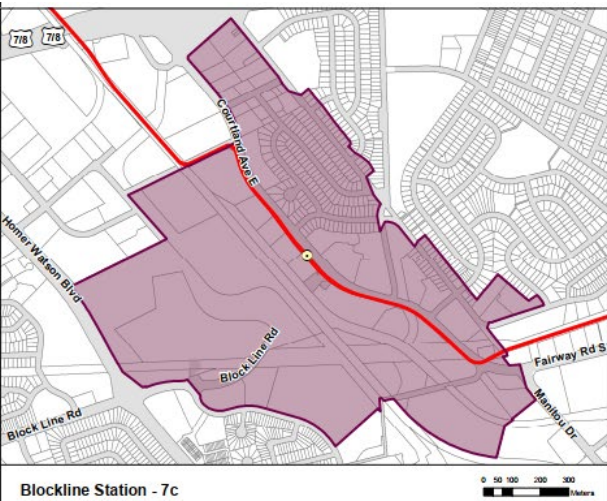
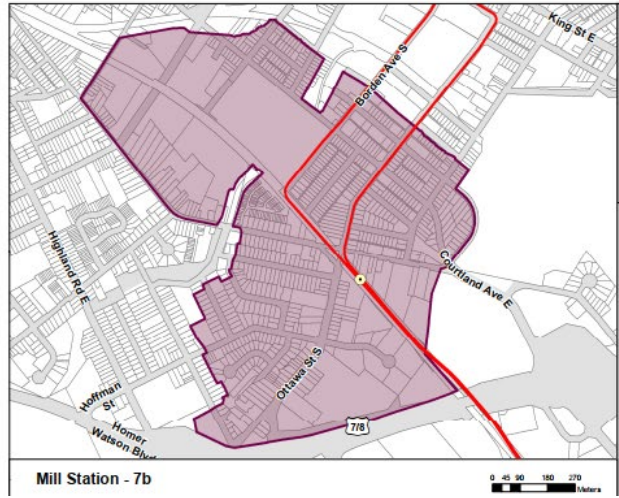
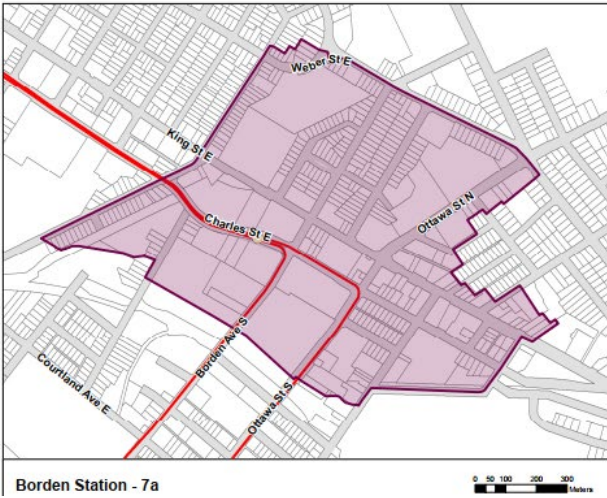
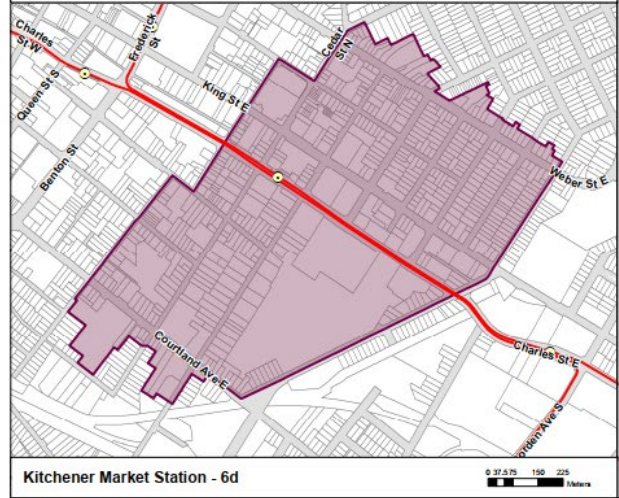
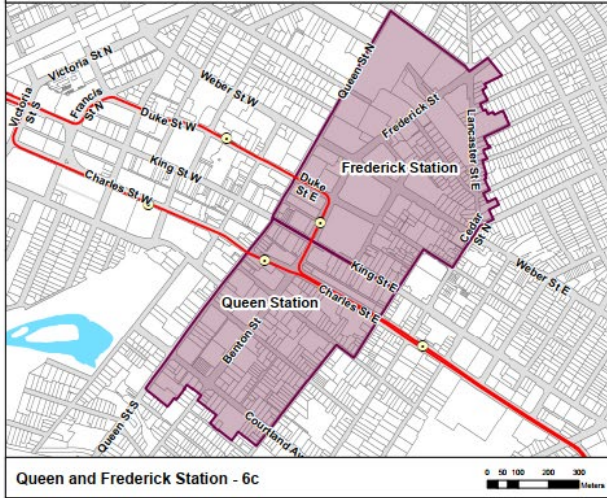
City of Kitchener

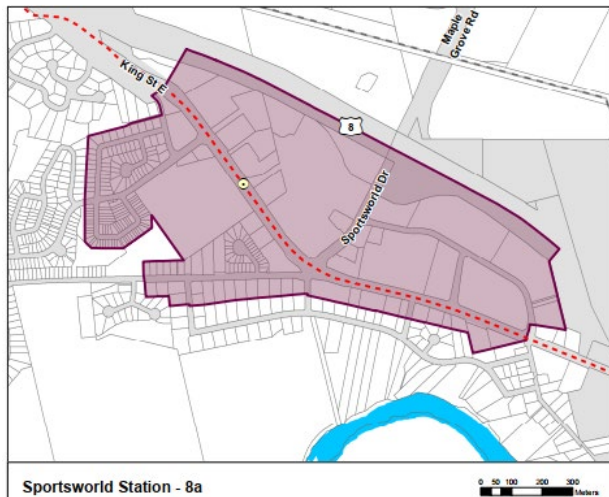
The City of Kitchener has 12 transit stops and 10 MTSAs

1. Grant River Hospital
2. Central Station
3. Victoria Park/Kitchener City Hall
4. Queen/Fredrick
5. Kitchener Market
6. Borden
7. Mill
8. Block Line
9. Fairway
10. Sportsworld (planned for Phase 2 Ion)

Figure 2. City of Kitchener MTSA as per the Region of Waterloo Official Plan







Kitchener's MTSAs have been established through the approval of the ROPA 6. Kitchener has launched Growing Together to update Kitchener's planning framework in MTSAs in station areas 1-7. Growing Together is the continuation of the ongoing planning review process that began with Planning Around Rapid Transit Stations (PARTS) and advanced through the Neighbourhood Planning Review (NPR) project. This work builds upon PARTS and NPR while also responding to new direction from the Province, implementing the updated Regional Official Plan, and addressing new and emerging City priorities.

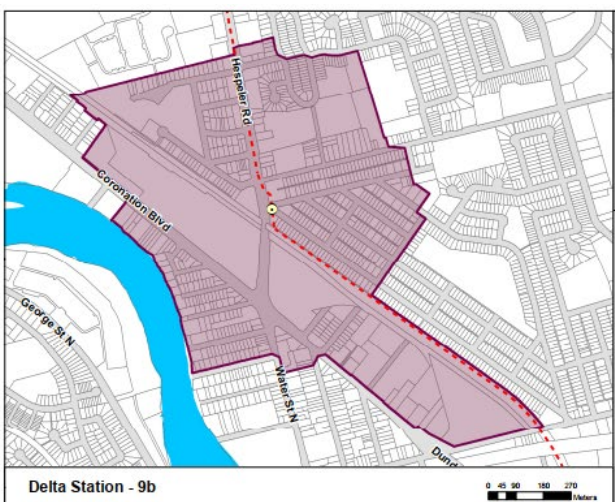
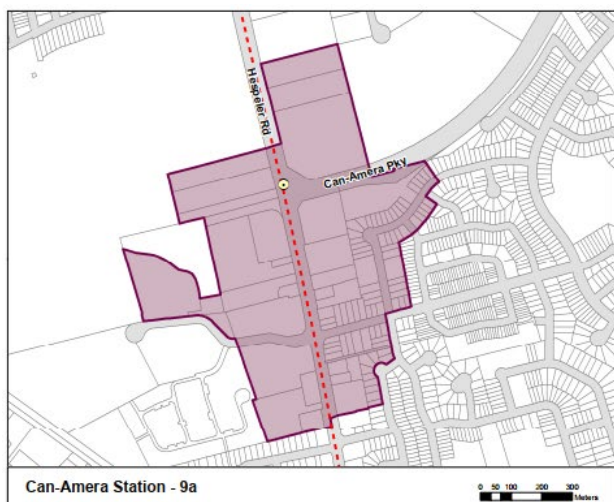
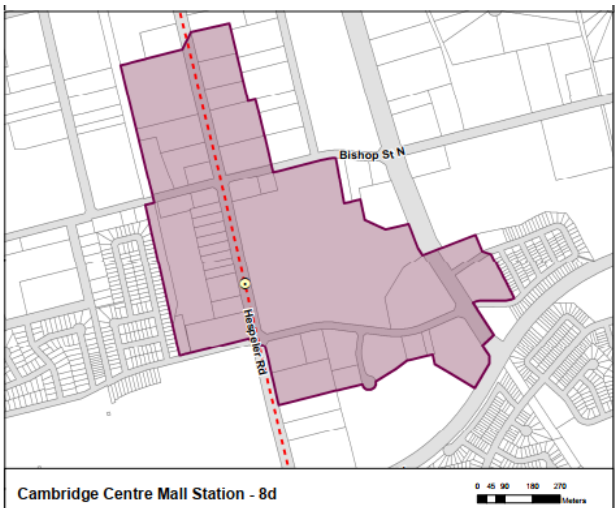
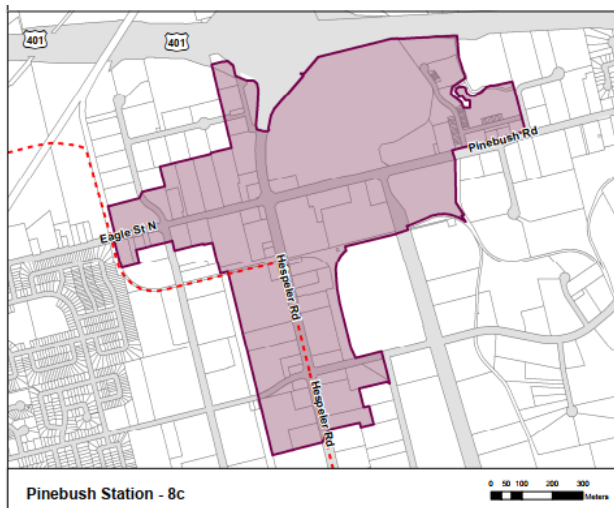
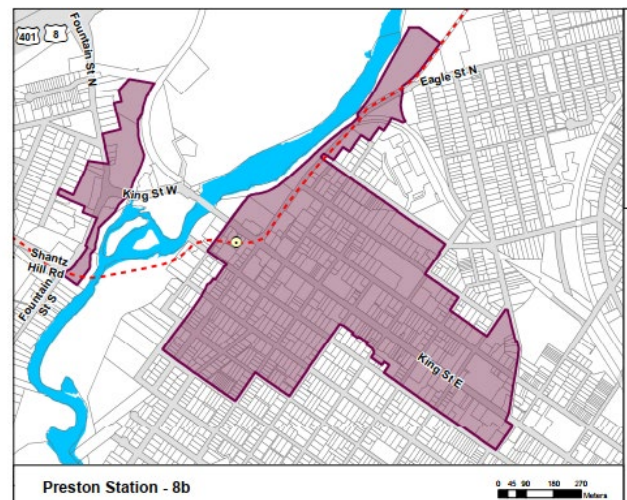
City staff plan to coordinate IZ amendments as part of Growing Together, which will be presented to council by the end of 2023 for approval. The timing of updating statutory planning documents for station areas 8-10 has yet to be determined.

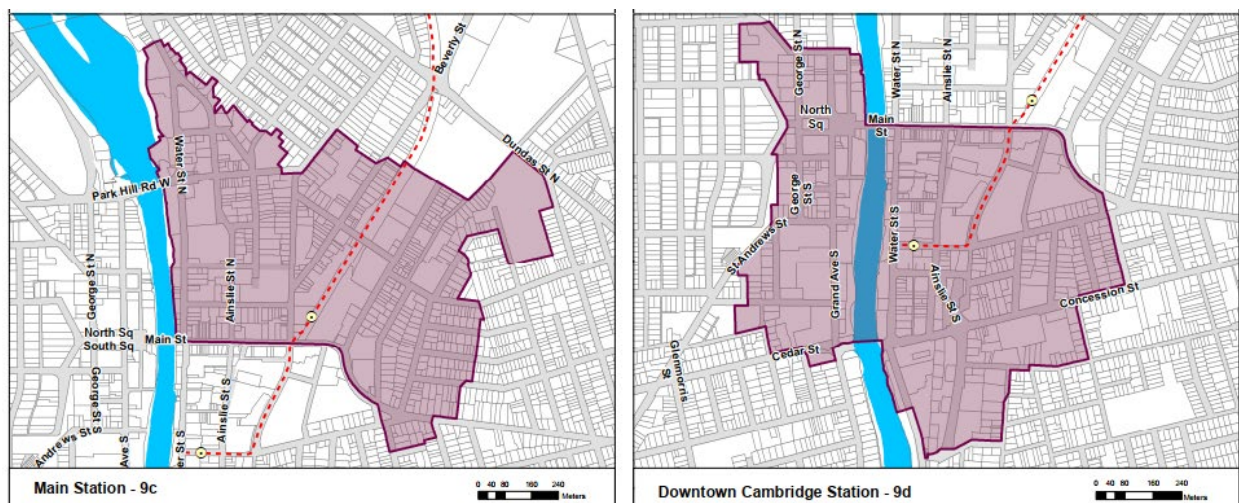
City of Cambridge

The City of Cambridge contains seven proposed transit stops and seven MTSAs.

1. Preston
2. Pinebush
3. Cambridge Centre Mall
4. Can-Amera
5. Delta
6. Main
7. Downtown Cambridge

Figure 3. City of Cambridge MTSAs as per the Region of Waterloo Official Plan





The City of Cambridge is currently working on secondary plans for the three core areas (Galt, Hespeler and Preston) as well as identified nodes and corridors within the city. The secondary plans encompass all seven MTSA's and will include policies to facilitate IZ.

Opportunities for residential development and the application of IZ is constrained in two of the MTSA's within the Urban Growth Centre due to existing and proposed restrictions related to heritage conservation as well as flood plain and a floodplain special policy area. The remaining MTSA areas are generally surrounded by a mix of designations permitting multiple residential, commercial and some employment uses. There are opportunities in the form of vacant and underutilized properties within the MTSA areas that would allow for a significant increase in density with potential for a higher number of units through IZ.

Table 3. Milestones for Delineating MTSA's to enable IZ

Milestone	Cambridge	Waterloo	Kitchener
MTSA boundaries delineated in City OPs	Anticipated Q4 2023 for Pinebush, Cambridge Centre Mall and Can-Amera. Timing on remaining MTSA's TBD.	Anticipated Q4 2023 for MTSA's 6-8. MTSA's 1-5 already delineated in OP.	Anticipated Q4 2023 for MTSA's 1-7. Timing on MTSA's 8-10 TBD.
MTSA density targets in P+J/ha in City OPs	Anticipated Q4 2023 for Pinebush, Cambridge Centre Mall and Can-Amera. Timing on remaining MTSA's TBD.	Completed.	Anticipated Q4 2023 for MTSA's 1-7. Timing on MTSA's 8-10 TBD.
City OP policies regarding permitted uses	Anticipated Q4 2023 for Pinebush, Cambridge Centre Mall and Can-Amera. Timing on remaining MTSA's TBD.	Completed. Some updates anticipated Q4.	Anticipated Q4 2023 for MTSA's 1-7. Timing on MTSA's 8-10 TBD.

Milestone	Cambridge	Waterloo	Kitchener
City OP minimum densities applying to buildings and land	Anticipated Q4 2023 for Pinebush, Cambridge Centre Mall and Can-Amera. Timing on remaining MTSA's TBD.	Completed. Some updates anticipated Q4.	Anticipated Q4 2023 for MTSA's 1-7. Timing on MTSA's 8-10 TBD.
IZ policies and zoning approved by Cities	Coordinated with Secondary Plans Q4 2023-Q4 2024.	Coordinated with OP updates Q4 2023 – Q4 2024.	Coordinated with MTSA OP and Zoning. Anticipated Q4 2023.

Assessment Report

Certain studies and analyses are required prior to adopting an IZ policy and by-law, the contents of which are set out in Ontario Regulation 18/232 under the Planning Act. These analyses are to be included in an assessment report and considered in the development of Official Plan policies and regulations that implement IZ.

The assessment report must contain:

1. An analysis of demographics and population in the municipality.
2. An analysis of household incomes in the municipality.
3. An analysis of housing supply by housing type currently in the municipality and planned for in the official plan.
4. An analysis of housing types and sizes of units that may be needed to meet anticipated demand for affordable housing.
5. An analysis of the current average market price and the current average market rent for each housing type, taking into account location in the municipality.
6. An analysis of potential impacts on the housing market and on the financial viability of development or redevelopment in the municipality from IZ by-laws, including requirements in the by-laws related to the matters mentioned in clauses 35.2 (2) (a), (b), (e) and (g) of the Act, taking into account:
 - i. value of land,
 - ii. cost of construction,
 - iii. market price,
 - iv. market rent, and
 - v. housing demand and supply.
7. A written opinion on the analysis described in paragraph 6 from a person independent of the municipality and who, in the opinion of the council of the municipality, is qualified to review the analysis.

The assessment report must be updated every 5 years.

The Cities of Kitchener and Waterloo have each developed a housing assessment containing an analysis of items 1-5. The Kitchener Housing Needs Assessment was presented to Kitchener Council in 2020 as background to Housing For All in report DSD-20-006. Waterloo's Housing Needs and Demand Analysis was presented to Waterloo Council in 2020 as part of report IPPW2020-071. An update report (21-

130(CD)) to Cambridge Council in 2021 directed staff to undertake a Housing Needs Assessment. Cambridge will be initiating this work in 2024.

In partnership with the Region of Waterloo, the Cities of Kitchener Cambridge and Waterloo (WKC+R) contracted land economists N. Barry Lyon Consultants Limited (NBLC) to carry out an IZ Financial Impact Studyⁱⁱⁱ (item 6), and urbanMetrics to provide a peer review of the study^{iv} (item 7). The Financial Impact Assessment included a model that tested various policy parameters across a number of MTSAs to determine the impact of these parameters on the achievement of affordable IZ units and development feasibility. Policy parameters included set-aside rate, duration of affordability, depth of affordability, tenure of affordable units. The Financial Impact Assessment and peer review were presented to Kitchener city council through report #DSD-20-150, Waterloo city council through report IPPW2020-071 and Cambridge city council through report 21-130(CD). NBLC was contracted in 2022 to update the financial model to reflect changes in material and labour costs and changes to the housing market. A memo outlining the update and approach is included as an attachment to this report. This model update was prepared with support from the Province of Ontario through the Streamlined Development Approval Fund. The views expressed in the publication do not necessarily reflect those of the Province.

IZ Policy Parameters

IZ programs can vary widely across a range of policy parameters. Key policy parameters that influence both the viability and effectiveness of an IZ policy include:

- Set-aside rate (proportion of units or floor area of a building required to be affordable)
- Level of affordability (the discount in price or rent as compared to the market)
- Duration of affordability (the length of time an affordable unit must remain affordable)
- Tenure of affordable IZ units (rental vs. ownership)

Additional policy parameters could include:

- Unit size and number of bedrooms
- Location within projects
- Design criteria
- Timing of construction and occupancy
- Exemptions
- Offsite units
- Accessibility
- Incentives and offsets

The subsequent sections describe the pro forma model, best practice review and affordability assessments used to assess the housing and financial impacts of an IZ policy under a range of policy scenarios and subject to a range of different parameters (above).

Evaluation of Financial Impacts of IZ

In 2020 WKC+R hired N. Barry Lyon Consultants Limited to carry out a financial impact study as required by the Planning Act and regulations. The study explains that IZ works by leveraging the value created through increases in density, development approvals, investment in LRT and increasing demand for

centrally located housing and directing some of that value toward the creation of affordable housing. In this way IZ programs can be designed to work without government subsidies.

Because IZ programs result in lower revenues for developers through lower rents or sales prices than would otherwise be the case, the Provincial legislation requires that IZ programs be designed to ensure that residential development continues to be financially viable for private market housing providers. Key policy parameters that affect the achievement of affordable housing objectives and influence development feasibility include:

- Set-aside rate (proportion of units required to be affordable);
- Duration of affordability (how long affordability must be maintained);
- Level of Affordability (maximum IZ unit rents and prices), and
- Tenure of affordable units (rental vs. ownership).

NBLC's financial impact study uses an approach called Residual Land Value (RLV) analysis to test if prototypical residential projects in a sample of 10 MTSAs across the Region are viable across several policy scenarios. The policy scenarios tested in the impacts of the key parameters above, along with other factors (e.g. lot size, building heights, incentives). The analysis was based on the following principles:

1. **Affordability** – Secure affordable housing that is not otherwise being provided by the market.
2. **Partner with development community** – To achieve housing targets the Cities need developers to build new affordable units under IZ. Residential development projects must continue to be viable.
3. **Minimize land market disruption** – Provide early signals and transition time for the land market to adjust to IZ
4. **Long term sustainability** – IZ policy should be viable without financial incentives. Incentives may be used to achieve affordability objective beyond what is supported by land economics

Study highlights include:

- The costs of IZ cannot be passed onto the market rate units in a building through higher prices/rents because developers are already pricing units as high as the market will bear.
- Developer profits are not reduced under IZ. Without the prospect for sufficient profit, developers will not be motivated to build.
- Instead, an IZ policy will put downward pressure on land value.
- If an IZ policy is too onerous, land value will be reduced by too much, so a residential redevelopment project cannot displace the existing land use and will not be viable.
- A modest and carefully designed IZ policy is financially viable in the near term in some MTSAs with the strongest residential market conditions.
- MTSAs are not all equally capable of delivering new units. A robust IZ policy was viable in a few MTSAs but not others. A geographically uniform approach to IZ is not recommended. Instead, the initial focus of IZ should be on MTSAs with strong residential markets.
- In weaker submarkets, the policy framework should be set up now, with very low affordability requirements in the near term. These requirements can increase gradually as weak submarkets improve. IZ can deliver a modest but meaningful number of affordable units in the near term. There is significant

value however in setting up an IZ framework to prepare for a more ambitious policy as development economics improve in the future. Frequent monitoring and adjustment of an IZ policy is critical.

- The Cities should provide an early signal to residential developers and MTSA landowners that an IZ policy is coming. When coupled with transition policies, this approach provides time for the market to adjust to an IZ policy and minimize land market disruption.

UrbanMetrics undertook a peer review of NBLC's study as required by the regulation. Their review was supportive of NBLC's approach and findings.

The above analysis is based on January 2020 data. There has been rapid change in the housing market since that time, and WKC+R identified a need to update the analysis. WKC+R retained NBLC to update the financial modeling to include all 24 MTSA's using Q3 2022 revenues, costs and macroeconomic changes. This work was partially supported by the Provincial Streamlined Development Approvals fund. The deliverable of this work was a dashboard that WKC+R have used to test the impact on financial viability of different policy parameters, cost and revenue assumptions, affordability levels, fee exemptions, incentives, etc. The key findings of the update is that development economics are for more challenging now than in early 2020, primarily due to higher construction costs and interest rates. More locations and types of development are now unviable even without an IZ requirement.

The model compares the development value to the value of the land based on its existing use. This is shown conceptually in Figure 4. Where the development value is higher than the existing use value, development is likely to be viable. IZ policy requirements put downward pressure on development value and if too stringent can make development unviable. This would reduce the supply of new housing and is an undesirable policy outcome. The degree of change in development value in response to IZ requirements is also important.

The development value is negative in all cases but condominium developments in prime market areas. The fundamentals of site development economics are extremely challenging as compared to the past decade. Accordingly, a modest IZ policy approach is recommended. Low set-aside rates in the short term, with comparatively small impacts on development viability, are recommended for established and emerging station areas to send clear signals to the market that IZ units will be required once market conditions improve. Establishing a program of set-aside rates now will ensure that the program's requirements are taken into consideration in land transactions and will help reduce market disruptions.

The analysis cannot capture certain nuances arising from the nature of a historical land purchase or the capitalization of land costs through the operation of an income-generating use. Nor can it contemplate the acquisition of land at speculative values, not fully appreciating the magnitude of impacts from future policy adjustments. Similarly, this analysis cannot account for all potential variations in the value of alternative land uses in a given area. Actual valuations will vary from property to property according to a wide range of site conditions and incumbent landowner expectations. Nevertheless, the model is a helpful tool for evaluating the development economic and housing supply implications of an IZ policy.

Figure 4. Example of Development and Existing Use Land Value Across Different IZ Policy Options



Set-Aside Rate

What does this concept mean?

A set-aside rate refers to the proportion of a market rate building that is required to be affordable. The rate can be calculated as either the proportion of affordable units out of the total number of units in a building, or the proportion of gross floor area dedicated to the affordable units out of the total gross floor area of a building. Draft regulations have been proposed by the Province to limit the set-aside rate to 5%.

What are best practices/options we have seen in other communities?

Set-aside rates vary widely across jurisdictions. Toronto and Mississauga have set-aside rates ranging from 5-10% of gross floor area, although these programs will need to be modified to meet Provincial regulations, if amended. US IZ policies tend to have higher set-asides. In some US programs, the provision of IZ units is voluntary and higher set-asides are required when associated with site specific zoning amendments to permit higher heights and densities than would normally be permitted.

What does the financial model tell us?

The financial model shows that the set-aside rate is one of the most impactful policy levers on project viability. High set-aside rates reduce project revenue, and in turn reduce the development value of a property. If the development value drops below the value of the property under its current use, a property owner would no longer be motivated to sell, which could limit transactions in the market for the development of new medium and high density residential buildings in MTSAs. Should a developer purchase lands at a value that is higher than the true development value of the property, the lost revenues due to IZ cannot easily be offset and the project may no longer be economically viable. Market forces in early 2023 make development economics a challenge. Residual land values for high rise condominiums are generally high enough to displace current land uses in prime MTSAs without the requirement for IZ units. However, weaker submarkets and rental development typically do not generate sufficient value to displace the current uses, even without IZ. Staff propose a low set-aside rate

that comes into force gradually so that affordable units can be delivered as the various markets mature, and so that developers and landowners can plan for the impact of IZ.

What we heard

Feedback from both the Waterloo Region Home Builders Association and infill-focused developers included a preference for a cautious and conservative approach to set-aside rates to limit potential impact of reduced revenues on a development. They were concerned that IZ may not have the intended effect of putting downward pressure on land values and could instead put upward pressure on the rents/prices of market units or reduce the financial viability of development. They provided strong support for a phased implementation of set-aside rates in order to allow time to build these requirements into their investment decisions and to minimize land market disruption.

Individuals representing housing advocacy groups and members of the public generally supported maximizing set-aside rates, including rates that exceeded the 5%, although some shared the same concerns with the development industry regarding the possibility that high set-aside rates could put upward pressure on the cost of market units.

Recommendations

1. Adopt set-aside rates that are proportionate to the strength of the market within each MTSA ranging from 3-5% by 2031, with a plan to maximize the number of affordable units in the long term. Set-aside rates should be tailored to the market strength of the MTSA/submarket where they apply. Setting a uniform set-aside rate, either across or within municipalities, risks stifling development. This could prevent the development of much needed market-rate housing.
2. Set-aside rates should be calculated as a percentage of the gross salable area (GSA) or gross leasable residential areas (GLA) of a development rather than percentage of units¹. This approach could provide flexibility to developers to determine the number of affordable units and bedrooms, while ensuring a consistent proportion of a development is dedicated to affordable units.
3. Where the set-aside calculation would result in the requirement for less than 57 m² of GLA/GSA for IZ units, no IZ units should be required. This area represents the average unit size.
4. Set-aside rates should start low and gradually increase to minimize land market disruption, allow time for the developers to build IZ requirements into pro forma, improve policy acceptance and reduce risks for negative impacts on the supply of new units. Transitions are important in all markets including prime market areas where land transaction prices are close to the modeled redevelopment land values. It will take time for the land market to adjust to the downward pressure put on land value by the IZ program.
5. Adopt a set-aside rate that considers the tradeoffs between the other key policy levers (depth, tenure and duration of affordability).

¹ Staff understand the GLA and GSA to be consistent but clearer than the Provincial terminology of “gross floor area to be occupied by affordable housing units”

6. Monitor the performance of the IZ program frequently and tune policy requirements, including the set-aside rate, as required.

Table 4. Recommended Set-aside Rates

Station Area	2024-2026 occupancy	2027-2029 occupancy	2030+ occupancy
Prime • University of Waterloo • Central Station • Victoria Park/Kitchener City Hall • Queen/Fredrick • Kitchener Market • Downtown Cambridge • Main	2%	3%	5%
Established • Conestoga • Waterloo Public Square • Willis Way • Allen • Grand River Hospital	1%	2%	3%
Emerging • Borden • Mill • Fairway • Sportsworld • Pinebush • Cambridge Centre Mall • Can-Amera • Delta	0%	1%	2%

Nuances to reflect different planning frameworks across the three cities are considered in the Incentives and Offsets section of this report.

Level of Affordability (Maximum Rent or Price)

What does this concept mean?

The definition for affordable housing is shifting as a result of newly introduced Provincial policy, legislation and draft regulations, and these shifts will have implications for any IZ policy adopted by WKC+R. Broadly, the Canadian Mortgage and Housing Corporation (CMHC) defines affordable housing as housing for which the cost doesn't exceed 30% of a household's pre-tax income. A similar but more nuanced Provincial definition for affordable housing is contained within the current Provincial Policy Statement 2020, however this definition is proposed to be eliminated from the Provincial Planning Statement as per a draft released in the spring of 2023. Draft regulations for IZ released by the Province in October 2022 propose a market-based rather than income-based definition for affordable housing

and set a maximum rather than minimum level of affordability. Affordable housing under the draft IZ regulations is limited to:

- Rental units with rents at or above 80% of average market rent
- Ownership units at or above 80% of the average resale price.

The final regulations have yet to be released and they are not yet in force and effect. However, staff assume that the regulations enacted by the Province will bring forward the proposed limits on affordable unit rents and prices and that any future IZ framework will need to align with these limits.

Average re-sale prices in each regional market area are currently gathered by the Province using data from Real Property Solutions. Average Market Rent (AMR) in each regional market area is calculated yearly by CMHC through their annual rent survey. Average Market Rent (AMR) represents the rents across the entire private rental housing stock and includes older stock and units rented below market due to rent control. Rents in new market developments are significantly higher than AMR. NBLC's primary research found that rents in new development in MTSA's were \$2.75-\$3.30 per square foot. This is approximately \$700 per month more than AMR. CMHC rental market survey data from 2022 revealed that AMR is about \$500- \$700 per month lower than what a renter would expect to pay for a vacant unit^v.

The Province has signaled that they will continue to provide these values through the release of an annual housing bulletin to assist in the determination of affordable rents and prices.

A comparison of affordable rents and prices under the current PPS framework, and the proposed regulations are shown in Table 2. Minimum rents for IZ units under the proposed Provincial regulations are lower than what could be considered affordable under the current definition of affordable in the 2020 PPS and the shared definition of affordable in the Region of Waterloo Official Plan and City Official Plans. These rents would be affordable to low (bachelor only) and moderate income renter households (Figure 5). Moderate income renter households (calculated as the 40th-60th percentile of incomes across *renter* households) earned \$40,400-58,900 in 2021. Affordable rent for these households would be a maximum of \$1,010-\$1,490.

Minimum ownership prices for IZ units would be affordable only to households in the top 20% of the regional household income range (Figure 6) and would not meet the definition of affordable in the 2020 PPS. The minimum affordable home ownership price under the proposed IZ regulations would exceed the affordable threshold (30% of household income) for moderate income households (calculated as the 40th-60th percentile of incomes across *all* households) who earned \$71,100 – 104,800 in 2021.

Figure 5. Affordability of 80% Average Market Rents to Low, Medium and High Income Households (bars represent rents at 30% of a household's gross annual income)

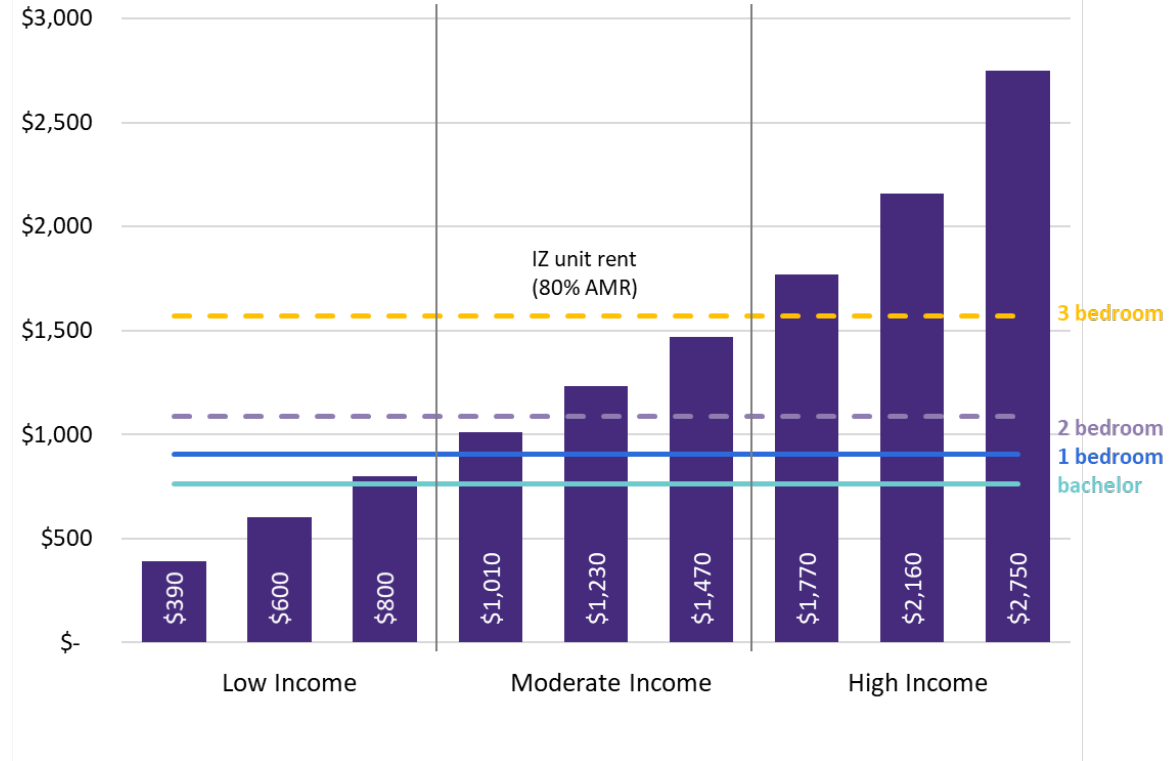
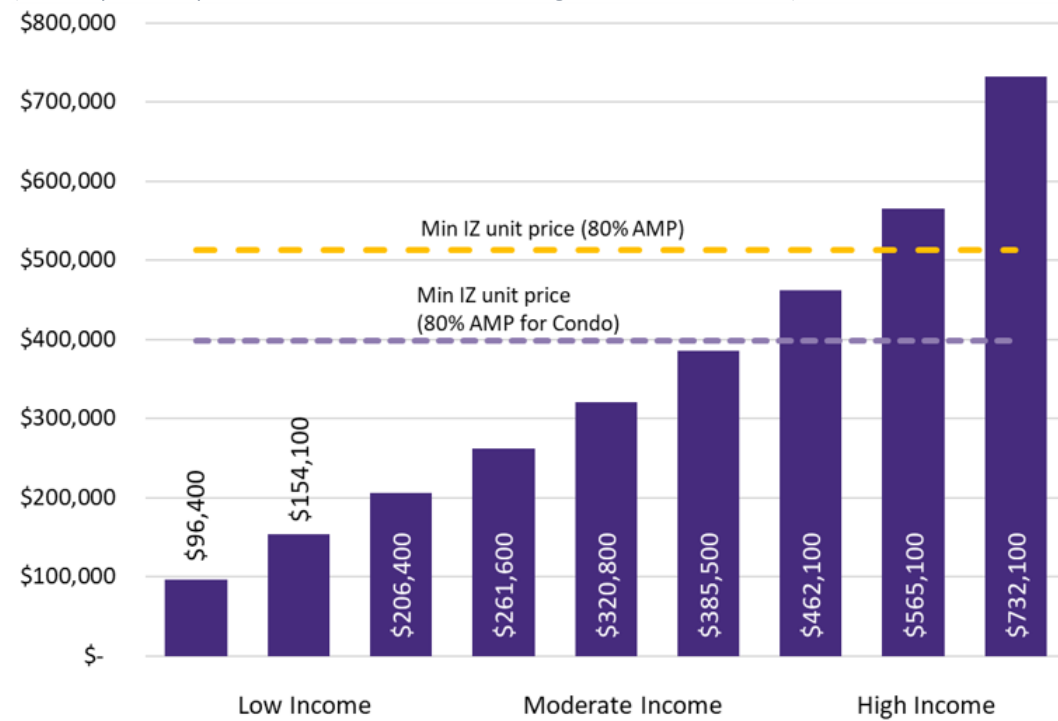


Figure 6. Affordability of 80% Average Market Resale Price to Low, Medium and High Income Households (bars represent prices at 30% of a household's gross annual income)



What are best practices/options we have seen in other communities?

In accordance with the PPS 2020, the Cities of Toronto and Mississauga adopted an income and market-based definition for affordability. These definitions, along with many other income-based definitions used in US jurisdictions, would no longer be possible under the proposed new Provincial regulations, since they include a requirement for some rents to be lower than 80% AMR. The City of Ottawa's draft framework adapted the PPS definition to focus on only moderate income households, which could be feasible under the draft regulations provided that the final rent is no lower than 80% AMR.

Notwithstanding the proposed market-based definition of affordability and limits on the level of affordability, there may still be an opportunity for IZ to target households who face significant housing changes. An IZ program could set minimum IZ unit rents for different unit sizes and establish eligibility requirements for each based on household characteristics (e.g., household income and sizes). This approach could help ensure that larger households with low per capita incomes are matched with correctly sized affordable units and that smaller households can't occupy units with an excess number of bedrooms. A similar approach was used in the City of Toronto's IZ program, as follows:

"Affordable rental housing and affordable rents means housing where the total monthly shelter cost (gross monthly rent, inclusive of utilities for heat, hydro, hot water and water) is at or below the lesser of one times the average City of Toronto rent, by dwelling unit type, as reported annually by the Canada Mortgage and Housing Corporation, or 30 percent of the before-tax monthly income of renter households in the City of Toronto as follows:

- Studio units: one-person households at or below the 50th percentile income;
- One-bedroom units: one-person households at or below the 60th percentile income;
- Two-bedroom units: two-person households at or below the 60th percentile income; and
- Three-bedroom units: three-person households at or below the 60th percentile income."

A scan of American jurisdictions showed that the vast majority of IZ programs targeted affordability toward 51-80% of area median income. In 2021 Waterloo Region's area median income (AMI) across all household sizes was \$87,200. The Affordable rent at 50% of AMI would be \$1,090/mo. The Affordable rent at 80% AMI would be \$1,744. Based on 2021 incomes, the proposed Provincial limits and definition for affordable rents for bachelor and one-bedroom units would fall below 50% AMI, while affordable rents for two- and three-bedroom units would fall between 51% and 80% AMI.

What does the financial model tell us?

Like set-aside rates, unit rents and prices are another policy lever that can have a significant impact on the financial viability of IZ. NBLC financial modelling shows improved viability of an IZ program under a 100% AMR scenario (rather than 80% AMR scenario). IZ unit rents at 100% AMR would continue to be affordable to moderate income renters. If rent increases continue to outpace renter incomes, the proposed rent (100% AMR) and Provincially proposed minimum rent (80% AMR) could become unaffordable to moderate income renters. WKC+R should continue to monitor affordability levels to ensure IZ rental units remain affordable to moderate income renters.

What we heard

Development industry representatives expressed concerns about potential impacts of very low IZ rents or prices on pro forma. They generally expressed a preference for an IZ program to focus on moderate rather than deeply affordable units to manage these impacts. Some developers expressed concern that if IZ unit rents were too low, it could present marketing and operational challenges in a mixed income building.

Builders of purpose-built rental housing communicated that alignment with CMHC funding programs could help them deliver IZ units in a financially feasible way. CMHC's Mortgage Loan Insurance (MLI select) is a key program that is commonly used to deliver mixed income buildings with attractive loan terms. MLI select requires developers to provide a certain percentage of units to rent at 30% of median renter income. We also heard from most stakeholders that CMHCs' Average Market Rent (which is based on an average of the rents of both occupied units [some of which are subject to rent control], and vacant units) is typically much lower than the average rents of vacant units alone. Since the former calculation does not reflect the rents needed for an adequate return, development industry stakeholders did not prefer the AMR method for setting rents.

Members of the broader community expressed a strong preference for deeply affordable units that would support households in the low and very low income range. Despite frustrations around the limitations of IZ to create deeply affordable units, some community members recognized value in creating moderately affordable units in areas well service by transit and as a low-cost tool to enable movement of households through the housing system.

Recommendations

- Rental should be the only tenure for affordable units in an IZ program. Under the proposed Provincial regulations, the minimum IZ ownership unit price would be \$512,309 in 2021. This price is only affordable to high income households making \$125,600 or more in 2021, and who are relatively well served by the market (See Tenure). This income range is not identified as an area of need by either Kitchener's or Waterloo's housing needs assessments.
- Staff recommend that the minimum affordable rent for an IZ unit be 100% AMR rather than the anticipated Provincial minimum of 80% AMR. 100% AMR is far below the rents that are typically charged in new purpose-built rental buildings or rented condominiums and below the rents that tenants must pay for new tenancies of old stock. 100% AMR would provide affordable rental housing to moderate income renter households making \$40,400-58,900 in 2021. Furthermore, while low income households are in deepest need, the viability of an IZ program is significantly improved at moderate rather than low rents. Core housing need is not only a problem for low income households, both also for moderate income households, particularly those households that are large or that support extended family. Further, developers foresee significant operational challenges in mixed income buildings marketed towards low income households.
- An IZ program should work alongside (not instead of) government programs that support more deeply affordable housing. Providing more units that are affordable to moderate income households through IZ can indirectly benefit all low and moderate income households by increasing the supply of affordable units. Providing affordable housing to moderate income households will help reduce pressure on market and non-market units that are affordable to low income households.

Figure 7. Affordability of 100% Average Market Rents to Low, Medium and High Income Households (bars represent rents at 30% of a household gross annual income)

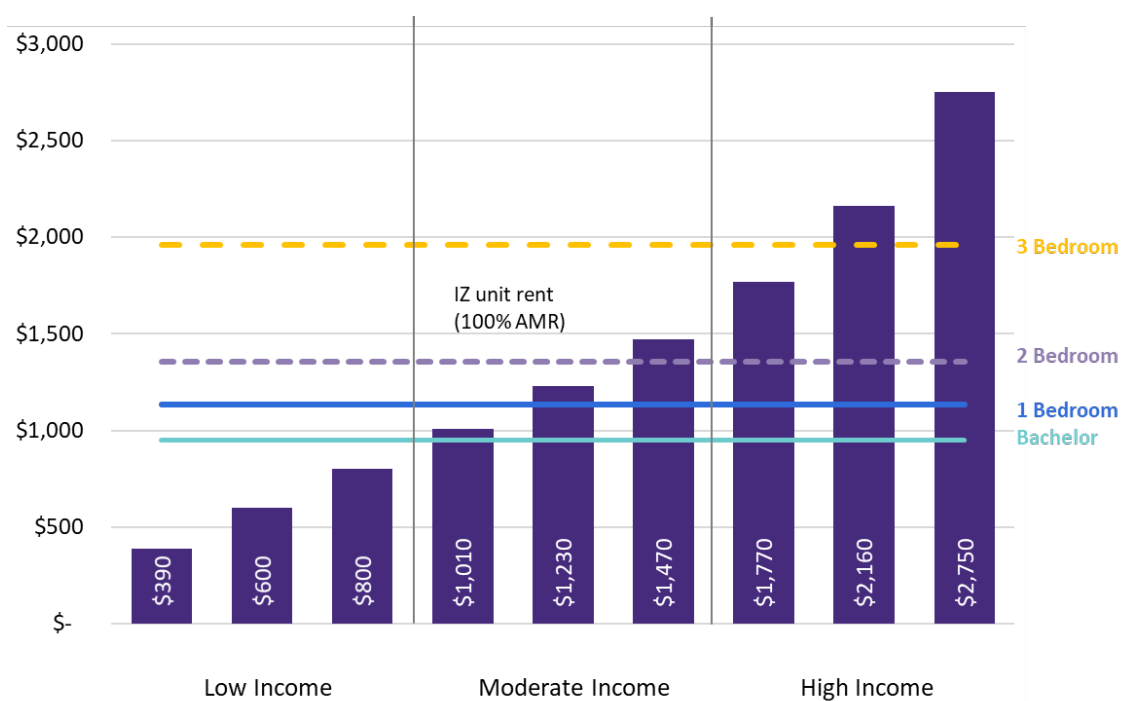


Table 5. Comparison of incomes and affordable rents based on Ministry of Municipal Affairs and Housing (MMAH) and Canadian Mortgage and Housing Corporation (CMHC) definitions and program criteria

Renter Household Income distribution	MMAH 2021 income (census derived)	MMAH Affordable rent (30% of income)	CMHC renter median income (CMHC MLI select criteria)	CMHC Affordable rent (30% of income)
40 th percentile	\$40,400	\$1,010	N/A	N/A
50 th percentile ² (median)	\$49,200	\$1,230	\$57,000	\$1,425
60 th percentile	\$58,900	\$1,490	N/A	N/A

- Staff recommend that the maximum rent charged for IZ units in condominiums be set at 100% of average market rent. The rent for IZ units in purpose-built rental buildings should be the greater of MLI select rent (currently \$1,425) or 100% of average market rent. Bachelor-2

² Discrepancies in median income are primarily due to different data sources (Census for MMAH and Canadian Income Survey and Survey of Labor and Income Dynamics for CMHC. Both are reputable Statistics Canada data sources)

bedrooms would be affordable to moderate income renters. 3 bedrooms would be slightly above the affordability threshold for moderate income renters but would be affordable to moderate income households considered across the income distribution of all types of households. Although these higher rents for three bedroom units are not ideal from an affordability needs perspective, they help mitigate the financial disincentives to build three bedroom units. Proposed income criteria would ensure that these units be rented to moderate income households, but they could be spending more than 30% of income on housing. Condominium fees, property taxes, insurance and maintenance should be the owner's responsibility. Utilities and parking spaces tent could be in addition to the maximum permitted rent.

Table 6. Recommended Maximum Rents for IZ units

Unit Type	2022 Maximum Rent for Affordable Rental Unit	
	Purpose-built Rental Building*	Condominium Building**
Bachelor	\$1,425	\$1,063
1 bedroom	\$1,425	\$1,240
2 bedroom	\$1,454	\$1,454
3+ bedroom	\$1,590	\$1,590

*Calculated as the greater of 100% AMR or MLI Select definition of affordability (currently \$1,425).

**Calculated as 100% AMR

Duration of Affordability

What does this concept mean?

Duration of affordability refers to the amount of time for which IZ units must remain at affordable rents or prices before reverting to market rents or prices. In the case of an IZ rental unit, rent would need to meet the required level of affordability for the specified program duration. Once the period of affordability is expired, the owner of the rental unit would be able to increase the rent to a market rent. For an IZ ownership unit, the resale price would be restricted for the specified program duration. Restrictions on IZ ownership units could include a requirement that the owner return a portion of the net proceeds of a unit's sale to the municipality and/or maximum income criteria for new owners.

The regulatory approach proposed by the Province in the Fall 2022 includes a maximum affordability period of 25 years.

What are best practices/options we have seen in other communities?

A survey of other communities shows that duration of affordability can range from 25 to 99 years. Los Angeles, New York and San Francisco require affordability in perpetuity. Toronto's affordability period is 99 years, and Vancouver's is 60 years. Chicago and Los Angeles both require a 30-year period of affordability. Mississauga's affordability period is 25 years for rental and 50 years for ownership.

What does the financial model tell us?

Duration of affordability is a moderately important driver of financial viability, but less important than other policy parameters such as set-aside and level of affordability. The financial implications of duration are described in the Tenure of IZ units section of this report.

What we heard

Almost all community stakeholders expressed a desire for long term affordability and a frustration with the proposed 25-year maximum term.

Some developers expressed a desire for a short period of affordability to provide an incentive to build a project (i.e. they were intuitively more sensitive to this variable than the model would suggest).

Recommendations

- The recommended duration of affordability is 25 years, which is the maximum term under the proposed regulations. Longer terms of up to 99 years could be appropriate if it were enabled by Provincial regulation. A long period of affordability is recommended to ensure the affordable housing can make a lasting impact.
- Municipalities should explore partnership with non-profits to expand the period of affordability beyond 25 years where possible, as described in the Implementation and Administration section of this report.

Tenure of IZ Units

What does this concept mean?

IZ can be used to create both affordable ownership housing and affordable rental housing. Combined with different building ownership models, IZ units can generally have any of the following three tenure structures:

1. Affordable ownership units within a condominium building
2. Affordable rental units within a condominium building
3. Affordable rental units in a market rental building

Rental units typically support households with moderate and low incomes for whom ownership housing is not an affordable option. The creation of IZ rental units, either within a purpose-built rental building or within a condominium building, can provide direct support to households that face barriers to finding affordable housing. An IZ program that emphasizes and supports the creation of IZ rental units as a priority would provide affordable housing for moderate income households in need.

Under current economic conditions, condominium construction typically results in better financial returns than new purpose-built rental housing. As a result, condominium development is preferred by builders, in most cases. In certain markets, adding a requirement for IZ units within purpose-built rental buildings could further reduce the financial feasibility of development. Despite the financial challenges of constructing purpose-built rental housing, Waterloo Region has experienced new purpose-built rental developments that target high income renters. An IZ program should balance the benefit to the community of requiring affordable rental units with the possible negative financial impacts of IZ on purpose-built rental housing that could discourage these types of development.

What are best practices/options we have seen in other communities?

Rental IZ programs are more common than ownership, but both are used widely.

Both Mississauga's and Toronto's IZ policy frameworks provide for affordable ownership and affordable rental. The set-aside rate in these programs is lower for rental units than for ownership units. This reflects the fact that the maximum affordable rental threshold of \$1,580-1,650 per month represents lower annual housing costs to households than affordable ownership units at the maximum affordable price of \$338,000-423,000 (due to the way these thresholds are defined in Provincial policy). Rental units are more deeply affordable and have a greater impact on development pro forma than affordable ownership units.

Toronto does not require IZ units in purpose-built rental buildings until 2026, and Mississauga's framework exempts purpose-built rental buildings from its IZ program entirely, presumably owing to their challenging economics, even without an IZ policy, as compared to condominium apartments. Furthermore, it does not prescribe whether affordable units be rented or owned. The approach is similar in Mississauga. 90% of American IZ programs provide for both rental and ownership units^{vi}

What does the financial model tell us?

Staff estimate the fair market value of the typical IZ rental unit under the proposed policy parameters would be approximately \$300,000 with variation based on unit size, building type and location. This figure is calculated using an income-based approach to property valuation based on net operating income for IZ units for 25 years and then reverting to market rents starting in year 26. This approximates the value we expect IZ units transact at on the open market, rather than a price mandated by policy. The financial impact of an IZ rental unit to a development pro forma is modelled as the difference between this sale price and market price of a unit sold as a market ownership condominium unit.

Requiring IZ units to be rental has more impact on financial viability than requiring ownership units. Staff recommend this approach nevertheless because IZ ownership units priced according to proposed Provincial regulations would be affordable to only high income households. Set-aside rates, rents and duration of affordable requirements have been calibrated to address this finding.

The municipalities cannot control the sale price of IZ rental units. The preference is that they be sold to third sector providers as described in the Implementation and Administration section of this report.

What we heard

A number of local rental housing providers consulted for this study confirmed that a modest set-aside rate for IZ units within their purpose-built rental buildings could be financially feasible and suggested that IZ program requirements align with CMHC's financial support programs for rental construction, such as MLI Select and Rental Construction Financing. These programs, which are typically required to ensure the financial feasibility of purpose-built rental housing developments, set out minimum a point system addressing affordability levels, set-aside rates and duration requirements and other criteria unrelated to affordability. The alignment with CMHC programs would enable purpose-built rental developments to count the affordable units that they are already creating toward the IZ requirement

but could also secure IZ units within purpose-built rental developments geared toward high end of market rents.

In consultation with condominium developers around the concept of IZ units in a condominium building, most expressed a strong preference to not own and operate IZ rental units long term. The typical condominium development business model sees the developer ending its association with a project shortly after ownership of all units is transferred. A successful IZ rental in condo program should provide a pathway for condominium developers to cease their obligations to the site/project shortly after condominium registration.

Recommendations

- An IZ program should be used to create affordable rental units only. The affordable rental units should be provided in a purpose-built rental or in a condominium building.
- Condominium developers could hold and rent their IZ units, sell them to a third party at their fair market value, or preferably, sell them to a third sector housing provider. Any rental IZ unit owner should be required to uphold maximum rent, income eligibility, and reporting criteria. Condominium fees, property taxes, insurance and maintenance would be the responsibility of the owner. Utilities and parking spaces leases could be in addition to the rent. Leasing would be a shared responsibility of the owner and administrator. These commitments will be secured through agreements registered on title.
- Condo and purpose-built rental developers should be provided with flexibility within an IZ program to adopt a variety of ownership operations models, as needed (See Offsite Units).
- Program requirements for IZ in purpose-built rental buildings should align with CMHC's affordability requirements for rental construction financing and grant programs.
- Review and refinements of this policy approach should occur as part of the mandatory 2-year or 5-year review of IZ.

Unit Size and Number of Bedrooms

What does this concept mean?

An IZ program can specify the gross floor area of IZ affordable units as well as the number of bedrooms.

What are best practices/options we have seen in other communities?

To promote equity and inclusion, all IZ units should be livable, functional and integrated visually with market-rate units within the same building. IZ affordable units should be comparable in size to market rate units containing the same number of bedrooms unless it is demonstrated that a different unit size is desirable to achieve a particular housing need. Where IZ and market rate units differ in size, IZ units are sometimes required to meet minimum standards to ensure that they are functionally equivalent to the market rate units. Table 7 shows a range of minimum IZ unit sizes adopted by other municipalities

Table 7. Minimum IZ Unit Size Requirements by Municipality

City	Minimum IZ Unit Size Requirements (square metres)			
	Studio	1 BR	2 BR	3+ BR
Toronto, ON			87	100
Boulder, CO	28	44		
Los Angeles, CA	No less than 90% of average floor area of market units with same # bedrooms			
San Francisco, CA	33	51	74	93
Chicago, IL	39	56	81	102

Some municipalities manage the financial impacts of requiring large bedrooms by allowing the housing authority to authorize fewer IZ affordable units in exchange for units with more bedrooms in accordance with a bedroom equivalency. For example, Portland Oregon permits the calculation of set-aside rates based on number of bedrooms rather than units. A developer can satisfy an IZ requirement by creating a few large units or many smaller units. Los Angeles sets out an equivalency table whereby a three-bedroom unit is considered to be equivalent to 2 studio units, 1.5 one-bedroom units or 1.25 two-bedroom units. IZ set-aside requirements that focus on percent of GFA rather than percent of total units could provide additional flexibility to developers to offer larger unit sizes, where feasible.

What does the financial model tell us?

WKC+R have modeled a program where the suite mix of IZ units mirrors that of the market units. For high rise buildings this is 0-10% bachelors, 45%-50% one bedrooms and 40-50% two bedrooms. Requirements for larger IZ units is expected to have a significant pro forma impact. Because of its potential to significantly impact a development's pro forma, any minimum bedroom requirements for IZ units should be considered as part of the larger IZ financial impact analysis. Any requirements that IZ units be larger than market units should be matched with less onerous requirements in other parts of the policy.

What we heard

Local developers have reported that it is economically challenging under current (2022) market conditions to provide family-sized units with three or more bedrooms. Consultation revealed that housing providers, moderate income households and organizations that support them, and the public at large have differing opinions on what unit sizes are in greatest demand.

Recommendations

- The unit sizes and number of bedrooms for IZ units should be generally consistent with the unit sizes and number of bedrooms of market units.

Location within Projects

What does this concept mean?

Affordable housing units created through an IZ program are typically located within a building with market rate units (But also see Offsite Units). The location of affordable units refers to whether the affordable units are concentrated within the building (e.g. located on a single floor) or dispersed throughout the building.

What are best practices/options we have seen in other communities?

Most IZ programs require that IZ affordable units be dispersed throughout a development, with no single building or floor containing a disproportionate number of IZ affordable units. Some exceptions may apply where there are programming and supports that can be more efficiently or effectively delivered to tenants who share specific needs, such as affordable units that are specifically geared to seniors and who would benefit from being close to certain amenities or accessibility features.

What does the financial model tell us?

The financial model does not consider the location of affordable units within buildings. The locations of IZ units within a development is unlikely to have significant financial impact on its pro forma.

What we heard

Feedback from both the development industry and members of the community emphasized a desire for IZ units not to be concentrated. In contrast, some affordable housing providers saw the potential for administration and service efficiencies if the IZ units could be grouped. These providers were particularly interested in the possibility of grouping IZ units within offsite units (See Offsite Units).

Recommendation

Where possible, IZ units should be dispersed throughout a development. However, there should be some flexibility to consider concentration of units where such an approach will benefit the IZ affordable unit occupants.

Design Criteria

What does this concept mean?

Additional design criteria include building and unit performance standards and design guidelines that ensure a minimum standard of quality and design for IZ affordable units and equitable access to common building amenities. Examples include minimum standards for storage areas, closets, balconies, kitchen cabinets, counters, flooring, furnaces and appliances, and/or equal access to building entrances, common areas and amenities.

What are best practices/options we have seen in other communities?

A number of jurisdictions have adopted design criteria for developers to ensure that affordable IZ units are livable and that IZ unit occupants have reasonable access to building features. For example, Boulder Colorado has adopted “Livability Standards” to guide the design of IZ units. These standards include minimum room dimensions, layouts for efficient floor plans that enable functional furniture configurations, minimum kitchen cabinetry requirements and closet sizes. Finishes and appliances in IZ units are permitted to be “functionally equivalent” to those provided in market units, which means they must be able to provide the same function, but do not need to be an identical brand, finish, or product. For example, IZ affordable units could have laminate countertops, while market-rate units could have granite countertops, provided that both offer the same functionality.

What does the financial model tell us?

The financial model did not provide pro forma analyses for different interior design options.

What we heard

Feedback from developers indicated that interior unit design and finishes have a relatively minor impact on pro formas and IZ feasibility and there was limited interest in exploring functionally equivalent design options because of the limited financial offset that such an approach could provide. Community feedback indicated a preference for equitable approaches to interior design, finishes and access to amenities.

Recommendations

- Affordable IZ units should share the same entrances, common areas, and amenities as market-rate units and additional fees or charges should not be applied to affordable unit residents for access to these amenities.
- Given the administrative and cost burden of implementing and monitoring interior design, minimum interior design standards for IZ units should be considered only where it has been demonstrated through a biennial program review that they are necessary to ensure equitable and functional designs and finishes in IZ units.

Timing of Construction and Occupancy

What does this concept mean?

Timing of construction refers to the time frame that any IZ affordable units must be constructed and available for occupation within the sequencing and context of the broader development. The timing requirements are usually set out in the legal agreement between the municipality and the developer and are registered on title. They ensure completion of the affordable units by creating a financial incentive for the developers to fulfil their IZ unit obligations.

What are best practices/options we have seen in other communities?

Most IZ programs surveyed have established timing requirements that require the IZ units to be constructed and occupied before or concurrent with the market rate units. These programs include Toronto, Montreal, Vancouver, Chicago, and Los Angeles.

What does the financial model tell us?

The financial model did not provide pro forma analyses for construction timing.

What we heard

No feedback was provided about the timing of construction.

Recommendations

- IZ units should be constructed and occupied concurrently or prior to the construction and occupancy and in proportion to market rate units. Similar timing requirements should also apply to offsite units. If the IZ unit timing requirements for offsite units cannot be met, (due to construction delays at the offsite for example), IZ units requirements should be met in the building generating the IZ requirement until such time as they can be met offsite.

- Requirements for construction and occupancy should be incorporated into the IZ zoning by-law, implementation guidelines, and individual legal agreements.

Exemptions

What does this concept mean?

There may be certain situations in which it is not necessary or does not make sense to require affordable units through IZ. Establishing exemptions ensures that certain developments are not discouraged as a result of the IZ requirements.

The Planning Act (O. Reg. 232/18) exempts the following developments from IZ requirements:

An IZ by-law does not apply to a development or redevelopment where,

- The development or redevelopment contains fewer than 10 residential units;
- The development or redevelopment is proposed by a non-profit housing provider or is proposed by a partnership in which,
 - a non-profit housing provider has an interest that is greater than 51 per cent, and
 - a minimum of 51 per cent of the units are intended as affordable housing, excluding any offsite units that would be located in the development or redevelopment;
- On or before the day an official plan authorizing IZ was adopted by the council of the municipality, a request for an amendment to an official plan, if required, and an application to amend a zoning by-law were made in respect of the development or redevelopment along with an application for either of the following:
 - approval of a plan of subdivision under section 51 of the Planning Act, or
 - approval of a description or an amendment to a description under section 9 of the Condominium Act, 1998; or
- On or before the day the IZ by-law is passed, an application is made in respect of the development or redevelopment for a building permit, a development permit, a community planning permit, or approval of a site plan under subsection 41 (4) of the Planning Act.

What are best practices/options we have seen in other communities?

Municipalities are permitted to provide further exemptions beyond those included in the Planning Act.

The City of Toronto's adopted IZ framework provides exemptions for:

- developments containing fewer than 100 dwelling units and less than 8,000 m² of residential GFA;
- developments that will be owned and operated by:
 - a non-profit housing provider with 100% ownership interest; or
 - a non-profit housing provider in a partnership in which:
 - the non-profit housing provider has an ownership interest that is greater than 51%; and
 - a minimum of 51% of the dwelling units will be affordable housing units;
- student residences, retirement homes, nursing homes, and residential care homes.

The City of Mississauga's adopted IZ framework provides exemptions for:

- Portions of a development or redevelopment containing long-term care buildings, retirement buildings, hospices, staff/student residences, or group homes
- Region of Peel or Peel Housing projects
- Developments subject to an existing affordable housing contribution secured before the date of passage of an IZ Official Plan Amendment through a S.37 (density bonusing) agreement, development agreement, S.51 agreement, S.45 agreement or other similar agreements with the City, to the satisfaction of the Commissioner of Planning and Building
- Purpose-built rental buildings

What does the financial model tell us?

Staff explored insight from the financial model in determining an appropriate threshold for the minimum project size to which IZ should apply. Mid rise developments are generally more financially challenging than high rise developments. However in weak markets, Residual Land Value for low and medium rise development can be stronger than high density. On smaller sites and in smaller projects, such as tall towers on small lots or in missing middle and mid rise housing typologies, the development economics tend not be more challenging.

What we heard

WKC+R did not receive significant feedback on exemptions.

Recommendations

To eliminate circumstances where IZ would be overly financially challenging, the following should be exempt from IZ requirements:

- Buildings with 50 units or less. This figure seeks to strike a balance between maximizing the number of units that can be provided through an IZ program and not disincentivizing missing middle housing forms. The recommended threshold is lower than in Toronto or Mississauga in recognition that small projects may be economically preferred to larger ones in weaker market areas.
- Staff anticipate that exempting building of 50 unit or less will provide an incentive, on the margin, for development just under this threshold. Staff considered but have not recommended a varying set-aside rate by project size. This was not supported by the financial model, could be confusing and because of the relatively narrow band of set-aside rates (1-5%). Staff will monitor the potential impacts of this threshold effect and recommend adjustments as needed.
- Residential and long-term care facilities, including retirement homes, group homes, and hospices
- Student residences built or operated by a post-secondary institution
- Region of Waterloo Housing, including Community Housing, Alternative Housing, and Supportive Housing
- Exemptions already specified in O. Reg. 232/18 under the Planning Act

Offsite Units

What does this concept mean?

Permitting offsite units may be one way to reduce financial impact on development and increase the feasibility of IZ. It could enable developers to construct IZ units in lower cost areas and/or in buildings with lower construction costs. It also provides opportunities for developers to partner with other developers and with affordable housing providers for the construction of offsite IZ units. Offsite units can help solve the business problem of requiring IZ rental units in condominium buildings.

The Planning Act (O. Reg. 232/18) places the following restrictions on municipalities regarding the permission of offsite units:

1. Offsite units shall not be permitted unless there is an official plan in effect in the municipality that sets out the circumstances in and conditions under which offsite units would be permitted.
2. Offsite units shall be located in proximity to the development or redevelopment giving rise to the by-law requirement for affordable housing units.
3. The land on which the offsite units are situated shall be subject to an Inclusionary Zoning by-law.
4. Offsite units shall not be used to satisfy the by-law requirement to include a number of affordable housing units, or gross floor area to be occupied by affordable housing units, that applies to the development or redevelopment in which the offsite units are permitted.

What are best practices/options we have seen in other communities?

Toronto requires an agreement registered on title for both sites when offsite units are on land not owned by the same person as the original site.

The City of Toronto's adopted IZ framework permits offsite IZ units at the discretion of the City. Builders must meet the following requirements:

- The offsite affordable housing units provide for an improved housing outcome;
- The offsite affordable housing units shall be ready and available for occupancy on a timely basis commensurate with completion of the residential units in the proposed development or redevelopment; and
- The offsite affordable housing units shall be located in proximity to the proposed development or redevelopment. The requirements for proximity will be met if the offsite development is located within the same market area category

The City of Mississauga's adopted IZ framework also permits offsite IZ units, once again at the discretion of the City. Builders must meet a similar set of requirements:

- The offsite housing must be located within an IZ area (MTSA)
- Offsite IZ units shall be located in proximity to the proposed development or redevelopment giving rise to the affordable housing requirement. Proximity is deemed to be a site located within the same IZ area.
- The offsite contribution results in an improved housing outcome, such as:
 - Delivery of units occurs sooner than if the units were delivered in the development giving rise to the affordable housing requirement

- The provision of affordable rental housing, or the provision of more deeply affordable units than required
- The provision of a greater number of affordable GFA than required
- Offsite units shall not be used to satisfy affordable housing requirements that apply to the development or redevelopment in which the offsite units are permitted

What does the financial model tell us?

The financial model is not structured to analyze offsite units. The option for offsite units can only improve financial viability.

What we heard

Both developers and non-profit housing providers see offsite units as an exciting opportunity for innovation in a way that meets the affordability goals of an IZ program while potentially avoiding some of its downsides. It could:

- Provide economies of scale for administrative costs whereby the region only needs to manage relationships with a few nonprofit housing providers
- Provide opportunities for non-profits, who have a mandate to provide long-term affordable housing, to partner with developers for the ownership and operation of buildings containing IZ units. Non-profit ownership could support a longer term of affordability than the proposed maximum of 25 years.
- Provide opportunities to build units in low-cost locations or using lower cost construction methods
- Leverage additional funding to potentially create more units or deeper levels of affordability. Non-profit partners are well positioned to secure CMHC funding and financing, long amortization periods and have ability to fundraise to deliver more affordable units via offsite IZ units than the private sector could, either on-site or offsite.
- Provide a steady pipeline of new units into the nonprofit sector that is not dependent on senior government funding programs
- Provide opportunities for on-site supports at scale

Conversely, we heard from the community at large that mixed income buildings that would be secured through on-site IZ units is an important goal that should be upheld. Community members expressed concerns about the possibility of creating poor quality housing in offsite buildings and stigma regarding offsite units.

Recommendations

- Offsite units should be permitted to provide flexibility in an IZ program and to facilitate, where possible, the transfer of IZ unit ownership to the third sector. Building and maintaining relationships with non-profit and affordable housing providers in the region will be important to facilitate offsite units. Developers are not permitted to provide Cash In Lieu (CIL) of IZ units but the regulations do not prohibit partnerships with affordable housing providers or other developers. Agreements will be needed on title to secure the units and there may be benefits to coordinated agreements with multiple developers if they are providing IZ units for different developments in the same offsite building.

- Offsite IZ units should be provided in an MTSA within the same municipality as the donor development
- Offsite IZ units can be within a mixed income building or a building with only affordable units
- Units could be built by a non-profit, developer or consortium of developers
- Offsite IZ units need to be in addition to affordable units that a developer would otherwise be required to provide.
- The timing of occupancy of IZ units, whether on site or offsite, must be coincident with market units. In the case of offsite units, construction timing of the offsite unit project may not align with the building generating the IZ requirement. In the cases where the occupancy of the building generating the IZ requirement (donor site) precedes the construction of the project receiving the offsite units (recipient site), IZ units must be provided at the donor site until IZ units at the recipient site are ready for occupancy. If the recipient site project does not proceed for whatever reason, IZ units would be provided at the donor site long-term.

Enabling offsite units generally supports the community goal of creating mixed income communities in MTSAAs, even though not all offsite units will be located in mixed income buildings. Community concerns about ensuring a high quality of design and amenities for offsite buildings can be managed through appropriate urban design and development review processes. The offsite unit option will be critical to achieving market acceptance of requiring IZ rental units in condominium buildings. Offsite units, properly secured by agreements, will allow the private and non-profit sectors to innovate in the delivery of affordable units. Staff intend to report back on the successes and challenges of offsite unit provision biennially and will adjust this approach as needed.

Accessibility

What does this concept mean?

Accessibility is defined by CMHC as the manner in which housing is designed, constructed or modified to enable independent living for persons with diverse abilities. In this discussion paper, accessible units are those that meet or exceed Building Code accessibility requirements. Such units are designed to provide, among other things, adequate turn spaces, minimum doorway and corridor widths, and power door operators. They are supported by other accessibility features throughout a building that permit a barrier-free path of travel and access to and from public areas such as entrances, hallways and amenity areas. A minimum of 15% of units within a multi-unit residential building must be designed with basic accessibility features.

What are best practices/options we have seen in other communities?

Individuals with disabilities are more likely to live in households that spent more than 30% of their total household income on shelter^{vii}. The proportion of unaffordable housing was higher for persons with disabilities in renter households with a subsidy (41.4% compared with 34.9% for the total population) and without a subsidy (45.0% compared with 34.5% for the total population). Notwithstanding the correlation between income, housing and disability, a recent review of the Region of Waterloo's community housing waitlist reveals that only 123 out of 7642 (1.6%) of households on the waitlist required accessible units. The reasons for the low proportion of individuals with a disability on the

waitlist are unclear and may not be representative of need (e.g. individuals with disabilities may be choosing not to register with the housing waitlist for a variety of reasons, such as long wait times). It could also reflect that the disabilities reported in the broader population are not all physical disabilities that require accessibility housing.

The City of Toronto's Draft Implementation Guidelines states that "Reasonable efforts shall be made to provide at least twenty percent (20%) of IZ affordable housing units within a proposed development as fully accessible housing units." Several CMHC housing grant programs require an accessibility standard of 20% or greater, and common areas that are barrier free.

What does the financial model tell us?

The financial model did not provide pro forma analyses for accessible units over and above the 15% required by the Building Code.

What we heard

Members of the public generally expressed a desire for at least 15% of IZ units to be accessible. Some members of the public expressed an interest in requiring a higher proportion of accessible units for the IZ units than is currently required by the Building Code.

Development industry did not provide feedback on accessibility requirements, although it is understood that increasing the accessibility requirements for IZ units beyond the Building Code requirement could result in additional costs and impacts on a development's pro forma. In a review of accessibility features added to newly constructed buildings, including apartments, CMHC concluded that the costs: "although not insignificant, are nonetheless much lower than the cost of converting an existing dwelling in order to make it accessible."^{viii}

Recommendations

- An IZ program should require that the Building Code's 15% accessibility requirements be distributed proportionally throughout market and IZ units. Developers should be encouraged to achieve a minimum of 20% accessibility in IZ units, where possible, and to ensure that IZ units are adaptable to enable later retrofit if needed.

Incentives and Offsets

IZ programs can be supported by a range of incentives or "offsets" that mitigate financial impacts of providing the affordable units. They can include, but are not limited to, additional height and density in exchange for the IZ units, flexible or reduced planning regulations (e.g. reduced parking) and waivers or reductions in municipal fees and charges. The Planning Act requires that incentives be considered in developing an IZ framework.

Additional Height and Density

What does this concept mean?

Under the Planning Act, a developer or builder can seek permission from council through a zoning by-law amendment for additional height or density than what is permitted for their property as of right in

the zoning by-law. Assuming all other costs remain fixed, additional height or density can increase the revenues of a development and make a development project more lucrative.

A development's as-of-right approved heights and densities can be combined with different set-aside rates to achieve different outcomes. For example, a zero or low set-aside rate can be applied to the as-of-right height and density of a building, while a higher set-aside rate can be applied to the additional height and density. IZ programs that only apply a set-aside rate to the additional height and density portion of a building can be considered voluntary, since no IZ units are required as part of the as-of-right height unit permissions. Conceptually, these types of programs work in a similar manner to the former s. 37 bonusing provisions of the Planning Act.

The Planning Act allows for mandatory IZ. The Act requires municipalities to consider incentives, and a voluntary approach to IZ may be contemplated.

What are best practices/options we have seen in other communities?

Historically many Ontario communities, including Toronto, Waterloo and, to a limited extent, Kitchener have used the former community benefits (height and density bonusing) provisions of s. 37 of the Planning Act to secure affordable housing or funds for affordable housing through developments that request height or density above and beyond what is permitted by the base zoning. The ability to use this tool was removed from the Planning Act in 2019. Vancouver has successfully used a height and density bonusing approach to secure affordable units.

Many American IZ programs use height and density bonusing to help offset the cost of IZ units. Density bonusing has been found to work well in areas zoned for lower density, but can have diminishing returns in areas that are already zoned for high-rise construction. According to a 2016 study by the Centre for Housing Policy "After a certain height and density, land costs become an increasingly smaller portion of overall development costs, and the benefits of the extra density do not provide the same level of subsidy that they would in a smaller-scale project."^{ix}

Neither Toronto nor Mississauga IZ frameworks proposed additional height or density in association with the IZ by-law.

What does the financial model tell us?

The financial model analysis in this report assumes a mandatory IZ program and a single set-aside rate for developments with a range of built forms that are associated with a relatively fixed height and density. It does not test scenarios that involve different set-aside rates applied to additional height or density. In practice, it is not uncommon for a developer to seek additional height and density to help improve project viability.

What we heard

Some industry stakeholders noted that requests for increased density are typical for most sites that will be redeveloped. A mandatory system with a single set-aside rate was generally preferred because it is more clear and simple to calculate than the voluntary or incentive systems discussed. This increases certainty that is crucial to project viability. Most community stakeholders also preferred a mandatory system. Community engagement did not reveal a strong majority opinion on the idea of permitting higher heights and densities to secure more affordable housing.

Recommendations

- A mandatory IZ program is recommended as it sets clear expectations and is simpler to understand and administer. A mandatory system allows developers and land owners to clearly understand what is required and build these assumptions into their investment decisions. A mandatory system also ensures that IZ units will be provided. A voluntary system is not recommended since it is more effective in relatively stable low density zoning environments where land transactions tend to align closely with zoning permissions.
- The implementation of an IZ policy should be coordinated with comprehensive updates to planning frameworks within MTSA's that include greater height and density permissions. Additional height and density permissions can help offset the financial impacts on the land market in many cases.

Parking Requirements

What does this concept mean?

The zoning bylaws of all three cities require a certain number of off-street vehicle parking spaces be provided in association with the development of new residential units. This varies between municipalities, location and structure type and other factors. Municipalities can reduce or eliminate vehicle parking requirements for IZ units, or for the entire development that includes IZ units to help offset the cost of IZ. Major Transit Station Areas are well served by higher order transit that provides a rationale for lower parking requirements.

What are best practices/options we have seen in other communities?

Mississauga reduces the parking required for IZ units by 30-50% and Toronto exempts IZ units from parking requirements.

What does the financial model tell us?

Structured parking has been reported by a number of developers as costing \$50,000-\$100,000 per space, depending on if it is located in the podium of a building or below ground. Any requirement to provide parking above and beyond what the market demands has significant implications on financial viability. Reductions in parking requirements for both IZ units and for the entire development that is subject to IZ requirements can significantly improve the financial viability of a project. The revenue associated with the sale or rental of parking spaces does not cover its costs.

The financial impact model assumes a parking ratio of 1.0 space per unit in emerging market areas, 0.7 spaces per unit in established market areas and 0.5 spaces per unit in prime areas. All market areas assume an additional 0.1 visitor spaces per unit. These assumptions approximate a market-based demand for parking and do not reflect the parking required by zoning. Parking requirements more than these can negatively impact financial viability.

Exempting IZ units from parking in a prototypical high rise within a prime market area at a 5% set-aside rate can yield approximately \$200,000 in value to the project. Exempting all units in the same project would generate approximately \$2.1m in value. These increases in value can help offset the financial implication of IZ and improve financial viability and new supply.

What we heard

We heard broad support from both developers and community members for eliminating parking minimums for IZ units. There was some support for reducing or eliminating parking requirements for all residential development in MTSAs as a way to support affordability in general.

Recommendations

- No parking should be required for IZ units. The minimum required parking rates for developments within MTSAs should be as low as possible. Consider parking minimums that range from 0 to no higher than 0.7 spaces/unit, where possible.

Financial Incentives

What does this concept mean?

Municipalities can provide financial incentives to developers to help offset some of the financial impact of providing IZ units. In November 2022, changes were made to the Planning Act and Development Charges Act that exempt IZ Units from City and Regional Development Charges (DCs)

A regulatory proposal to exempt IZ units from Community Benefit Charges (CBCs), and Park Dedication Charges is not yet in effect.

Additional financial incentives could include the waiver or reduction of:

- Planning application fees
- Building permit fees

Municipalities could also offer one time capital grants or ongoing subsidies. Additional incentives to private developers would need to be administered through a Community Improvement Plan, Municipal Capital Facilities Agreement or similar provision to address anti bonusing provisions of section 106 of the Municipal Act.

What are best practices/options we have seen in other communities?

Neither Toronto nor Mississauga offer financial incentives through their IZ programs. Prior to Bill 23, Ottawa was investigating the potential for financial incentives in the form of fee waivers or tax increment equivalent grants and reduced taxes for those who own/rent an affordable unit to mitigate impacts from assessed value that do not reflect affordable prices.

An American study found that financial incentives to support IZ programs were relatively uncommon. "...[I]ncentives include waivers, reduction or deferral of development and administrative fees and/or financing fees (17%), expedited processing (13%), concessions on the size and cost of finishes of affordable units (11%), tax relief abatement (6%), and direct public subsidy (4%)^x."

What does the financial model tell us?

Financial incentives have a direct positive impact on the financial viability of development. Every dollar of upfront fee waivers or capital subsidy has approximately one dollar impact on costs, residual land value and development viability (with some devaluation based on timing of the incentive in the

development lifecycle.) The impact of ongoing incentives like property tax waivers or operating subsidies are proportional to their net present value.

The mandatory incentives are incorporated into the pro forma model. These incentives have a modest positive impact on the financial viability of the IZ program. The total value of the mandatory fee exemptions, assuming a one-bedroom IZ unit in a condominium tower in Kitchener, is approximately \$30,000 per IZ unit (Table 8).

Table 8. Value of Mandatory Incentives

Fee or Change	Value (Kitchener)
Regional Development Charges	\$20,044
City Development Charges	\$8,399 Central, \$10,854 Suburban
Community Benefits Charges	\$0 CBCs have been established in Waterloo but not in Cambridge or Kitchener
Parkland Dedication Charges	\$2,020 typical per Bill 23
Total	\$30,463-\$32,918

What we heard

Through public engagement with the development industry and public, staff have conveyed the principle that to work, an IZ policy would need to be financially sustainable over the long term. This means that it can't rely on significant municipal subsidy.

Possibly as a result of messaging that significant municipal subsidy would not be available for an IZ program, the development industry did not express significant interest in financial incentives beyond the mandatory incentives.

There was no public consensus on providing financial incentives to help offset the impacts of inclusionary zoning on development viability. Some expressed concern with providing any incentives, including the mandatory incentives. The most interest in additional financial incentives was for developments that provide better affordability outcomes than under the mandatory policy.

Recommendations

- Staff do not recommend additional financial incentives for IZ units in addition to the mandatory Development Charges, Community Benefit Charges and Parkland Dedication Charge exemptions.

Implementation and Administration

IZ programs, like all affordable housing programs, require active and ongoing administration, monitoring and program adjustment to ensure that they continue to provide affordable housing to eligible households over the affordability term. Without appropriate oversight and enforcement, affordable units secured through IZ programs can be lost through increased rents, subletting, illegal sale or foreclosure. Reports from some jurisdictions suggest that inconsistent administration can make it more difficult for certain eligible households to obtain IZ units, which can undermine program effectiveness, public support and trust^{xi}. In extreme cases, inadequate monitoring and enforcement has led some municipalities to release the affordable units back into the market and abandon the program entirely^{xii}. Program monitoring and data collection are important to meet the legislative requirements of IZ, evaluate how well the program is meeting its objectives and to inform any program modifications in response to changing housing needs or land and development economics.

Implementation and administration of IZ generally involves the following key tasks:

Incorporating IZ requirements into development approvals processes

- Help developers understand their options/obligations to meet IZ requirements
- Review and approve developments that are consistent with IZ policies and regulations
- Coordinate municipal approvals with IZ housing administrators
- Establish legal agreements and register agreements on title

Administering IZ units

- Set and monitor affordable rents or prices
- Select owners/tenants who meet the eligibility requirements
- Monitor eligibility over time and manage unit turnover
- Enforce IZ agreements

Monitoring and reporting program outcomes

- Track key housing metrics to inform program evaluation and updates
- Report annually on IZ program
- Review and refine program in accordance with regulations and changing housing needs/land economics

Incorporating IZ Requirements into Development Approvals Processes

Area municipal planning staff implement Official Plan policies and Zoning By-laws that set out the requirements for IZ through the development approvals process. Many jurisdictions develop IZ Implementation Guidelines which can help municipal staff communicate how program parameters such as the number of IZ units or affordable rents and prices will be calculated and where there may be flexibility for different development scenarios. Examples of Implementation Guidelines include City of Toronto's Draft Inclusionary Zoning Implementation Guidelines^{xiii}, City and County of San Francisco's Inclusionary Affordable Housing Program Monitoring and Procedures Manual^{xiv}, and the City of Chicago's Affordable Requirements Ordinance Rules^{xv}.

Contents of the IZ Implementation Guidelines should communicate in plain language any IZ provisions set out in Ontario Regulation 232/18 under the Planning Act along with other program requirements as deemed appropriate, including:

- Size of developments or redevelopments subject to the IZ by-law
- Geographic areas subject to IZ by-law
- Any exemptions from the by-law
- Income range for households that would be eligible for IZ affordable housing units
- Housing types and sizes of units that would be authorized as IZ affordable housing units
- Tenure of units subject to IZ policies
- Number of affordable housing units, or the gross floor area to be occupied by the affordable housing units
- Duration that affordable housing units will be maintained as affordable
- Measures or incentives to support the creation of IZ units and how they will be calculated
- Rents or prices of IZ units and how they will be calculated
- The approach to determine the percentage of the net proceeds to be distributed to the municipality from the sale of an affordable housing unit, including how net proceeds would be determined.
- The circumstances in and conditions under which offsite units would be permitted
- Accessibility requirements for IZ units
- Location of IZ units within buildings
- Timing of IZ unit construction

Municipalities can also consider requiring developers to submit an affordable housing plan as part of a complete application that demonstrates how the developer plans to address the requirements set out in the IZ Implementation Guidelines. The plan and the details therein would form the basis of an agreement registered on title of the lands proposed to be (re) developed pursuant to Section 35.2 (2)(i) of the Planning Act.

Recommendations

- WKC+R should develop IZ Implementation Guidelines in conjunction with an IZ program.
- WKC+R should work with area municipal and Regional solicitors to create a template for basic terms and conditions and signatories for any legal agreements that will be required as part of an IZ program.

Administering IZ Units

Successful IZ programs in the US and Canada are typically administered by government agencies or publicly funded non-profit housing organizations (e.g. arms-length Housing Authorities or Land Trusts) and supported with adequate and scalable revenue sources to reflect the size and complexity of the IZ program over time¹. Publicly coordinated, administered and funded IZ programs have been found to result in better tracking and monitoring of IZ affordable units compared to programs administered by the private sector. IZ programs administered by a government agency, or arm's length housing organization benefit from the alignment of organizational mandates with the objectives of IZ, as well as

a centralized and consistent monitoring approach. In some cases, the public sector may be able to leverage existing affordable housing administration expertise and resources to support implementation. Some development industry representatives interviewed for this project indicated that they do not have the capacity, resources or interest to manage IZ units over the long term. Their preference would be for a single administrative body across Waterloo Region to oversee and manage the units. The Region of Waterloo has expressed an interest in administering an IZ program.

Table 9. Comparison of Administrator Options

Advantages / Disadvantages	Region of Waterloo	Non-profit
Advantages	Efficient - Could leverage existing staff expertise and some extra capacity (in short term)	Potentially Lower Cost – Non-profit may be able to operate at lower cost (lower salaries) or secure additional outside funding
	Predictable - Existing positive working relationship and trust between Region and area municipalities	Capacity building – Opportunity to build capacity and expertise in Non-profit housing sector
	Easy - Could be established fairly quickly and easily through Joint Service Agreement or similar model (precedents exist)	
	High Stability over Long Term - ROW and municipal mandates unlikely to change, lower staff turnover etc.	
	Accountability and Control – ROW staff more directly accountable to senior management/council	
Disadvantages	Potentially Higher Cost – Region may have higher salaries and may not have access to external funding opportunities	Low Capacity – Existing housing non-profits already facing capacity challenges
	Capacity building – reduced opportunity to build community capacity for program administration	Uncertain Interest/Expertise - Confirmation needed that NFPs would be interested and could develop the expertise to carry out the work
		Low stability over long term - Changing NFP priorities and/or potentially high staff turnover may reduce capacity and program stability

Eligibility and Waitlists

Eligibility requirements are maximum income levels and other criteria that households must meet to rent or own an IZ unit. These criteria help ensure that affordable units are available to those who need them. A waitlist is a list of prescreened individuals and households that is maintained by an Administrator to create a transparent and efficient process for matching those needing housing with available IZ units. Waitlists are typically used to support the tenant selection process for IZ rental units.

Toronto's Draft Inclusionary Zoning Implementation Guidelines require that an eligible household's gross annual household income cannot exceed four times the annual rent of the IZ unit. Toronto also identifies additional household eligibility criteria to ensure appropriate allocation of units, including:

- a. Minimum age of 18;
- b. Have legal status in Canada;
- c. Not be in arrears with a social housing provider or are in arrears but have an active payment plan in good standing;
- d. Have good credit history
- e. Not have a lease for another rental unit at the time of occupation (some flexibility to overlap may be needed)
- f. Not own, in whole or in part, any form of residential real estate in Canada or abroad.
- g. Have limited assets and wealth
- h. Occupancy standards, including a minimum of one and a maximum of two persons per bedroom; A maximum of one bedroom for spouses.

Many US jurisdictions use Area Median Income (Average) to determine eligibility. While the measurement of income differs, the same general principle used by Toronto typically applies: that is, eligible households must have a maximum income that corresponds with the level of affordability of a unit.

The City of Toronto and several US jurisdictions have adopted IZ programs that rely on private rental building owners or unit owners to identify eligible renters and owners. While this approach has the benefit of reducing administrative cost to the administrator of the IZ program, there are risks to leaving tenant or owner selection entirely in the hands of property management companies or private unit owners, including lack of consistent or transparent application of eligibility rules. Lack of transparency and oversight in the selection process could lead to problems with fair access to units, including the possibility that IZ units will be made available to eligible friends and family first before they are available to the broader community or that units may be made available to ineligible households.

Requiring IZ unit owners to select tenants from a centralized waitlist of eligible tenants is a more efficient approach for both tenants and administrators. It enables advance screening and speedy tenant selection, and reduces the sign up burden for tenants by enabling them to sign up to a single centralized waitlist rather than multiple waitlists. Administrators benefit from more consistent and compliant implementation which can help reduce the need for enforcement. The process by which IZ affordable units are awarded to eligible households should be open and transparent and set out in publicly available guidelines; selection options could be either through first served basis or by lottery.

Feedback from rental housing providers operating in the Region of Waterloo demonstrated a willingness to work with an IZ administrator to identify potential eligible tenants (e.g. from a waitlist) but they also

expressed a preference to retain decision making authority over final tenant selection. Rental housing providers felt it was important that they had a final say on the tenant to reduce financial risk and minimize possible landlord-tenant or tenant to tenant conflicts.

Recommendations

- WKC+R should continue to explore options, costs and capacity for the Region of Waterloo to serve as the administrator of an IZ program.
- The IZ Administrator should be responsible for developing a waitlist of eligible tenants and owners in accordance with the IZ Implementation Guidelines.
- Approaches to select from the waitlist should consider first come first served and by lottery.
- Owners of rental buildings should maintain final decision making authority over tenant selection from the waitlist.
- Eligible households should be those who are within the moderate income range (below the 60th percentile of the income in the regional market area). In addition, the gross annual income of an eligible household should not exceed 3.3 times the affordable rent of an IZ rental unit. Other eligibility criteria should be considered.

Monitoring and Reporting

The Planning Act requires municipalities to establish a procedure for monitoring to ensure that the required number of affordable housing units, or the required gross floor area to be occupied by affordable housing units, is maintained for the required period of time. The primary tool to ensure compliance with the terms of IZ policy and by-law is the legal agreement that developer is obliged to enter into with the subject city (and potentially also the administrator – e.g. The Region of Waterloo). Ongoing monitoring and enforcement of the agreement would occur through the annual reports by the property owners regarding unit rents/prices, to be submitted to the administrator.

Under the Provincial regulations, municipalities are also required to publicly report on the status of the affordable housing units required in the IZ by-law every two years. The report must contain:

1. The number of affordable housing units.
2. The types of affordable housing units.
3. The location of the affordable housing units.
4. The range of household incomes for which the affordable housing units were provided.
5. The number of affordable housing units that were converted to units at market value.
6. The proceeds that were received by the municipality from the sale of affordable housing units.

The Planning Act further requires municipalities to update their housing assessment reports within five years of IZ official plan policies coming into effect. The purpose of this regular update is to determine whether any aspects of the IZ program need to be modified.

Recommendations

- WKC+R should continue to work to create a consistent approach and centralized location for monitoring reporting.

- Any IZ program should be regularly reviewed and adjusted in accordance with any findings from the biennial IZ housing reports and 5-year housing assessment updates.

Appendix 1 – Jurisdictional Scan of Inclusionary Zoning (IZ) Frameworks

	City of Toronto	City of Vancouver
Approach	Require IZ within PMTSAs at an assigned set-aside rate	Require IZ as a percentage of large-scale developments and incentives in the form of bonusing for affordable rentals/ownership in specific areas of the City
Background	The City of Toronto has adopted an IZ policy that would require new residential developments to include affordable housing units, creating mixed-income housing. In areas that are designated IZ Market Areas and PMTSAs a subset of the MTSAs.	- In 2019 it was found that the City of Vancouver was not meeting its rental housing targets as rental vacancy has been less than 1% since 2014 - The City of Vancouver has density bonusing measures in place as an incentive for developers to include affordable housing and amenities - In 2017 the City of Vancouver also implemented Inclusionary housing requirements for large developments that are required. Intended to deliver deeper affordability for moderate and lower-income households
Mandatory or Voluntary	Mandatory	Mandatory for all large developments Voluntary for all developments within the specified areas
Income Figures	Median Total Income (2020) (CAD \$) All families: \$96,700 Couple families: \$104,960 Lone-parent families: \$59,120	Median Total Income (2020) (CAD \$) All families: \$98,640 Couple families: \$104,350 Lone-parent families: \$60,710
Development s Impacts	For developments within MTSAs Toronto OP IZ Map Toronto ZB IZ Amendment	Large Developments: - Involve a land parcel or parcels having a total site size of 8,000 m2 (1.98 acres) or more, or - Contain 45,000 m2 (484,375 ft.2) or more of new development floor area - Meet at pre-app phase to discuss the appropriate mix of incomes, household types and tenures - Required as a condition of development approval – applicant will enter into a Housing Agreement - Unencumbered dirt sites are the priority mechanism to enable 20% social housing Bonusing: - In specific zones set out by Density Bonus & Public Benefits - Figure 1: Shows Density bonus Zones in Vancouver - Table 2: Density Bonus Contributions Rates - Bonusing comes in the form of cash in lieu for social housing
Exemptions	- Purpose built rental project with fewer than 140 units (until 2026) - Condo with fewer than 100 units or 8000m² GFA	Large Developments:

	City of Toronto	City of Vancouver
	Non-profits, student residences, and residential care homes	- Where an unencumbered dirt site is and cannot be provided, the transfer of ownership in the form of an Air Space Parcel may be required – upon evidence that the applicant cannot provide such land Bonusing: - Found in Table 3: Exemptions from Density Bonus Contributions - Retention of pre-1940s houses – subject to meet the Zoning & Development By-law definition - Secured market rental housing – subject to meet the Zoning & Development By-law definition - For-profit affordable rental housing – subject to meet the Development Cost Levies (DLC) By-law - Social housing – subject to meet the DLC By-law definition and receiving approval from the Housing Policy group - Seniors supportive or assisted housing that is secured market rental – subject to an agreed upon rental increase limit and meeting the Zoning & Development By-law definition 35% below market rental units covering 35% of secured market rental floor area
Incentives & Bonusing	Financial Incentives are only permitted should the application propose additional affordable housing units (above-and-beyond IZ set-aside requirements) and/or units with deeper levels of affordability.	Buildings with 100% residential GFA as secured rental housing and 20% of the floor area as below market rental are eligible for negotiated (case-by-case if a contribution is needed) community amenity contributions are reasonable to secure rental housing For below rental projects the Fairly Room: Housing Mix Policy for Rezoning Projects apply 35% defined as 2 or more bedrooms Typical approach to bonusing is cash is contribution to the City for the provision of social housing ranging from \$39/m2 to \$1,410/m2 for development above and beyond permissions in base density (without inflation index calculated) https://vancouver.ca/home-property-development/annual-inflation-index.aspx (so with the 2022 inflation rate it would be \$42.43/m2) Bonusing: - The City of Vancouver's IZ zoning uses bonusing to provide affordable housing in the form of: - Base density with no density bonus - Additional density in exchange for affordable housing or amenities - Cash in-lieu – for specific zones that allow for extra density, up to a specified maximum FSR. They are determined by the density bonus contribution rate
Set-aside Rate	2022 – require 5-10% of condo developments as affordable housing By 2030- increase requirements to 8-22%	Large Developments:

	City of Toronto	City of Vancouver
		30% of total residential floor area (20% social housing target and 10% moderate income housing target) - Unencumbered dirt sites are the priority mechanism to enable 20% social housing Bonusing: - based on the net additional floor area above base density in Table 2
Unit Design Requirements	- Unit Mix section 6 of the draft IZ 6.1. - Reasonable efforts shall be made to satisfy Section 3.0 (Unit Guidelines) of the City's Growing Up urban design guidelines with respect to the unit mix and sizes of IZ affordable housing units 6.1.1 - 25% of IZ affordable housing units are 2-bed or 3-bed units and at least 10% of IZ affordable housing units are 3-bed 6.1.2 – minimum is 87 sqm for 2-bed IZ affordable housing and 100 sqm for a 3-bed IZ affordable housing average IZ affordable housing unit is 90 sqm for 2-bed units, 106 sqm for 3-bed units 6.2 – unit share shall be proportional to those of those units at market-rate 6.3 – 1-bed units are preferred over studios – 1-beds may replace studios to satisfy 6.2 6.4 – minimum unit sizes by bedroom type are at least proportional to market-rate unit sizes 6.5 – For minimum unit size see section 6.5.1 and 6.5.2 6.6 - indistinguishable – in appearance, access, quality, and functionality – from market units 6.7 – must have central heating and cooling with individual controls 6.8 – the number of affordable units with a balcony, patio, and/or terrace shall be proportional to the number of market units 6.9 – laundry facilities with the same access and conditions as market-rate (ensuite or common laundry) 6.10 - shall have equivalent finishes, fixtures, and features to market-rate – do not need to be identical but need to be new and of good quality in terms of performance, durability, and appearance	Large Developments: The design of the social housing must comply with the <u>Housing Design</u> and Technical Standards such as the following: - Location and Site Planning - Indoor and outdoor Amenity Spaces - Dwelling Unit Floor Areas - Wheelchair Accessible and Adaptable Units - Energy and Environmental Design - Crime Prevention Through Environmental Design - Construction Standards For below market rental projects, the Family Room: Housing Mix Policy for Rezoning Projects apply 35% defined as 2 or more bedrooms
Depth of Affordability	Setting rents and ownership prices based on new income-based definitions of affordable housing in the official plan. This link defines affordability: https://www.toronto.ca/legdocs/mmis/2021/ph/bgrd/backgroundfile-172507.pdf Recommended Affordable Rent Definition: Affordable rental housing and affordable rents means housing where the total monthly shelter cost (rent plus utilities) is at or below the lesser of: (1) one times the average City of Toronto rent; or	Large Developments: - Moderate incoming housing: \$30,000 to \$80,000/year for rental - Affordable rental rates - If development provides units at the outlined prices cash in lieu is not required - To be eligibility for new tenants: 25% of income spent on housing and household income cannot exceed 4 times annual rent Building operator will verify eligibility for existing tenants in Moderate Income Rental Units – set out by the Vancouver Charter

	City of Toronto	City of Vancouver
	(2) 30% of the before-tax monthly income of renter households in the City of Toronto as follows: - studio units: one-person households at the 50th percentile income; (\$32,486) - one-bedroom units: one-person households at the 60th percentile income; (\$43,600) - two-bedroom units: two-person households at the 60th percentile income; (\$73,901) - three-bedroom units: three-person households at the 60th percentile income. (\$74,301).	- Will test tenants every 5 years after initial occupancy - Existing tenants cannot have a household income that exceeds 5 times the annual rent (20% of income) - If a resident fails to qualify operator will issue a notice to end tenancy with BC Residential Tenancy Act
Option for affordability Ownership or Rental	Affordable units can be provided as either affordable ownership or affordable rental at the discretion of the developer.	Large Developments: Rental units can be privately owned but units will be secured as rental housing with below-market rents through a Housing Agreement with the City of Vancouver
Affordability Period	99 years	60 years or the life of the building, whichever is greater for all social housing through legal agreements such as section 565.2 of the Vancouver Charter
Sources	https://www.toronto.ca/legdocs/mmis/2021/ph/bgrd/backgroundfile-172128.pdf City of Toronto IZ https://www.toronto.ca/wp-content/uploads/2021/10/8672-CityPlanning-Draft-Inclusionary-Zoning-Implementation-GuidelinesOct2021.pdf https://www.toronto.ca/legdocs/mmis/2021/ph/bgrd/backgroundfile-172507.pdf https://www.toronto.ca/legdocs/bylaws/2021/law0941.pdf https://www.toronto.ca/legdocs/bylaws/2021/law0940.pdf	https://bylaws.vancouver.ca/bulletin/bulletin-density-bonus-zoning-public-benefit.pdf https://bylaws.vancouver.ca/zoning/policy-below-market-rental-housing-for-rezonings.pdf https://vancouverplan.ca/wp-content/uploads/Vancouver-Plan-2022-09-23-1.pdf https://vancouver.ca/people-programs/creating-new-market-rental-housing.aspx https://guidelines.vancouver.ca/guidelines-technical-housing-design.pdf https://vancouver.ca/home-property-development/density-bonus-zoning.aspx#:~:text=bulletin%20(2%20MB)-,Density%20Relaxations%20for%20Amenities%20(in%20kind),referred%20to%20as%20inclusionary%20zoning. https://vancouver.ca/home-property-development/annual-inflation-index.aspx (inflation rate chart)

	City of Ottawa	Montgomery County, MD
Approach	Require IZ within PMTSAs via an assigned set-aside rate	Mandatory to require a set-aside rate that uses AMI that requires MPUDs to be a part of development within four major categories of development

	City of Ottawa	Montgomery County, MD
Background	IZ is currently under review - final report due in 2023 - Ottawa had the third highest rents for major urban centre in Ontario (2018-2020) - intention of IZ is to provide more purpose-built rentals - Target to have 20% of all new res units be affordable (70% of which are within the definition of core affordability and 30% within market affordability) terms - IZ not to target households with the definition of “core affordability” Affordability Targets: Low to moderate - those people in the lowest 60% income distribution for regional market - Ownership calculation will include households with incomes in the lowest 60% of the income distribution - Rental 60% for renters of the income distribution	- Montgomery County’s moderately priced dwelling unit (MPDU) program is one of the US’s first, IZ laws. It was implemented in 1973 to help meet the goal of providing a full range of housing choices in the county for all incomes, ages and household sizes. An MPDU is a county government-regulated unit that is required to be affordable to households earning 65 percent of area median income (AMI) for garden-style apartments and 70 percent for high-rise apartments. - The program’s implementation involves both the public and private sectors, with the local government performing regulatory and administrative functions, and the building industry producing the housing. - Between 12.5 and 15 percent of the total number of units in every subdivision or high-rise building of 20 or more units must be moderately priced, according to the MPDU regulation. - Effective October 31, 2018, developments with less than 20 but more than 10 units are required to make a payment to the Housing Initiative Fund in lieu of an MPDU requirement on-site. - Three agencies within Montgomery County are key to the implementation of the MPDU program: Montgomery County Planning Department, Department of, Housing and Community Affairs (DHCA), and Housing Opportunities Commission (HOC).
Mandatory or Voluntary	Mandatory	Mandatory
Income Figures	Median Total Income (Ottawa-Gatineau) (2020) (CAD \$) All families: \$107,290 Couple families: \$117,110 Lone-parent families: \$65,050	- The most recent 5-year estimate for Montgomery County’s median household income is \$100,352 (source: 2012-2016 American Community Survey 5-Year Estimate). AMI figures
Developments Impacts	For developments in MTSAs and lands subject to Community Planning Permit Systems PMTSA Map 26 PMTSAs <i>*Considering including an Official Plan policy pursuant to paragraph 10 of subsection 3(1) of Ontario Regulation 232/18 that would allow off-site units only where those units are to be assumed by a non-profit housing provider.</i> IZ will apply to new developments and additions to existing buildings for 50 units or more residential units or 3,500 square metres of residential GFA even if there is less than 50 units Offsite units must be in the same PMTSA as parent development	In Montgomery County, affordable housing generally falls into four categories: 12.5-15% is based on building typology for the four categories – law applies to properties zoned one-half acre or smaller that are served by sewer or water lines. Subdivisions not serviced are exempt - Income-Restricted Affordable Housing: A moderately priced dwelling unit (MPDU) is built under a government regulation or a binding agreement requires the unit to be affordable to households at or below the income eligibility for the MPDU program. Under this program, income requirements are usually 65 percent of area median income (AMI) for garden apartments, and 70 percent (AMI) for high-rise apartments. - Income-Restricted Workforce Housing: Chapter 25B of the Montgomery County Code defines housing that is affordable to households earning up to 120 percent of AMI or less as workforce housing. Income-restricted workforce housing is bound by government regulation and workforce housing is negotiated on a project-by-project basis. When a master plan refers to workforce housing as a part of its affordable housing goals or

	City of Ottawa	Montgomery County, MD
	• must be an added benefit (set-aside exceeded) or mix of unit types must be better than on parent development • similar quality (similar finishes) • off-site must be ready for occupancy before or contemporaneous the parent development • do not need a ZBA but need to prove intent of Op is maintained	requirements, household incomes are limited to 100 percent of area median income. Workforce housing rents must be 20 percent lower than market rents. • Market-rate Affordable Housing: Market-rate affordable dwelling units rent at prices affordable to households earning no more than 80 percent of area median income, based on unit and household sizes. These units are typically found in older buildings and their rents are lower than the median rent for the planning area. Market-rate affordable dwelling units are not income-restricted by government regulation and not defined in the Montgomery County Code. • Rent-Restricted Affordable Housing: This term is not currently defined in the Montgomery County Code or commonly used but describes housing where rent increases are limited and no income tests are required for the tenants. The preservation of market-rate affordable housing may require an agreement that both establishes the baseline rent (priced to be affordable at 80 percent of AMI) and rent restrictions (such as requiring a rent increase only according to the voluntary rent guideline).
Exemptions	N/A	• If you provide 25 percent MPDUs, you are exempt from paying transportation and school impact taxes under §52-49 and §52-89. • Other exemptions are outlined within various sections such as unit design.
Incentives & Bonusing	Investigating the potential for financial incentives in the form of fee waivers or tax increment equivalent grants offered through a Community Improvement Plan Possible reduced taxes for those who own/rent an affordable unit to mitigate impacts from assessed value that exceeds affordable prices	• If you provide 20 percent MPDUs, you are not required to provide any other category of public benefit points for optional method projects in the C/R and employment zones. • If you provide 25 percent MPDUs, you are exempt from paying transportation and school impact taxes under §52-49 and §52-89.
Set-aside Rate	Determined by GFA not number of units 10% for ownership across all PMTSAs <i>*pre Bill 23</i> 10% for purpose-built rentals in PMTSAs <i>*pre Bill 23</i> City of Ottawa staff was directed to consider a 20% set-aside rate but found 20% was unfeasible. • A third-party financial assessment recommends harmonized requirements across all PMTSAs	• 12.5% - 15% is mandatory in the Bethesda Downtown Sector Plan area through the Bethesda Overlay Zone. • Effective on October 31, 2018, planning areas where 45 percent of the United States Census tracts have a median income of 150 percent of Montgomery County's median income will have a legal requirement to provide 15 percent MPDUs. • The planning areas currently included in the requirement are Goshen, Lower Seneca, Darnestown, Travilah, Potomac, North Bethesda and Bethesda-Chevy Chase.
Unit Design Requirements	• Unclear on most aspects of unit design • Requiring set-aside rate by GFA gives more flexibility to require larger unit sizes and accessible units • Unit mix requirements in the OP policies or zoning regulations to ensure that a sufficient number of multi-bedroom units are set-aside as affordable	To help make MPDUs available at an affordable price, DHCA allows, among other things: • MPDUs may be smaller in terms of square footage than market rate units, not to exceed maximum sizes specified in the applicable regulations. • The finishes of MPDUs may be of a lower standard than for market rate units (for example, Formica countertops instead of granite, and/or standard builder grade cabinetry instead of hard wood finishes, standard builder grade plumbing fixtures instead of top-of-the-line fixtures, etc.). • In single-family detached subdivisions, MPDUs may be single-family attached units.

	City of Ottawa	Montgomery County, MD
		- Some interior space, such as basements, third bedrooms, and lofts, may be left unfinished, and extra bathrooms may be roughed-in, and left unfinished, as long as minimum specifications are met per the applicable regulations. Further design guidelines for MPDU developers: - Unit types (promote but not required, duplexes or singles in a single detached only subdivision) - Bedroom mix – single family subdivision must have 3 or more bedrooms unless waived - Multi-family dwellings must match the market-rate units - Ensure liveability requirements are met (i.e. bedroom to bathroom ratios) - Townhome regulations (i.e. back-to-back towns MPDU are prohibited unless otherwise demonstrated) - Garden apartments – a mix of MPDU and market rate units are encouraged on a single garden apartment stairwell - Locational features, innovative site and building configurations, facilitate access to MPDUs, permit enough cluster of singles and duplexes, phase construction (MPDUs are to be built along or before other dwelling units), etc.
Depth of Affordability	IZ Targets: Moderate income households are within the 40th to 60th distributions 60th = 30% of total income to be affordable - Target is 40-60 See Table 1: (Targets) - Ownership = \$420,000 - It is desired that non-profit could purchase these units and then convert the units to affordable rentals	Maximum Income Limits for MPDU Rentals: Link: Do not renew leases where earnings are higher than the applicable levels outlined in the AIM
Option for affordability Ownership or Rental	Affordable units can be provided as either affordable ownership or affordable rental at the discretion of the developer.	Both Rentals and Sale Ownerships. - The Montgomery County Department of Housing and Community Affairs lists the income eligibility for the MPDU programs on its website. The agency categorizes eligibility by for-sale dwellings and rentals (generally 65 percent of area median income for garden-style, 70 percent of area median income for high-rise apartments) and for workforce housing (80 to 120 percent of area median income). - Income limits are based on the area median income set by the United States Department of Housing and Urban Development (HUD) for a particular fiscal year.
Affordability Period	99-year affordability period for ownership units Non-profit may purchase the units from for-profit developers and move ownership units to rental if possible 25-year affordability period for purpose-built rentals (if and when subject to IZ) After period ends the City is allowed to take 50% of the proceeds of the sale of an affordable unit	In 2004, the Montgomery County Council amended the MPDU control period governing for-sale MPDUs from 10 years to 30 years and for rental MPDUs from 20 years to 99 years

	City of Ottawa	Montgomery County, MD
Sources	https://pub-ottawa.escribemeetings.com/filestream.ashx?DocumentId=73819 https://pub-ottawa.escribemeetings.com/filestream.ashx?DocumentId=73817 https://pub-ottawa.escribemeetings.com/filestream.ashx?documentid=90399 https://pub-ottawa.escribemeetings.com/filestream.ashx?DocumentId=73822 https://ottawa.ca/en/planning-development-and-construction/official-plan-and-master-plans/new-official-plan/volume-1#section-7fe49ebf-c933-4670-9794-c17c11fa1235 https://documents.ottawa.ca/sites/documents/files/section4_op_en.pdf	https://montgomeryplanning.org/planning/housing/ https://www.montgomerycountymd.gov/DHCA/housing/singlefamily/mpdu/produced.html https://www.montgomerycountymd.gov/DHCA/MPDU/mpdu-program.html https://www.montgomerycountymd.gov/DHCA/MPDU/mpdu-Developers.html memorandum AMI figures https://www.housingfinance.com/policy-legislation/montgomery-county-md-12-000-units-created-bymontgomery-county-program_o https://www.montgomerycountymd.gov/DHCA/MPDU/index.html https://www.housingfinance.com/policy-legislation/montgomery-county-md-12-000-units-created-bymontgomery-county-program_o

	New York City, NY	Boston, MA
Approach	Mandatory for all developments that meet criteria for size and number of units. Based on an AMI calculation. Bonusing is a method of action.	A combination of mandatory and voluntary IZ policies. Mandatory until zoning changes are needed to facilitate development otherwise voluntary.
Background	New NYC MIH Program Implemented in 2016 for Mandatory, but originally started as Voluntary in 1987. https://www.toronto.ca/wp-content/uploads/2019/11/981e-CityPlanning-Mandatory-Inclusionary-Housing-in-NYC.pdf	Known as an Inclusionary Development Policy – first created in 2000 and was updated in 2015 Since 2022 Mayor Wu has been working with a consultant to lower the threshold requirements for IDP from 10 to 7 for rental projects and increase the set-aside rate from 13% to 20% and deepening affordability. The City has separated itself into three housing zones (A, B, and C) to recognize price differences across the City. The three zones were revised in 2015 to set different buyout and off-site requirements. The zones determine the amount of on-site IDP required under IDP. An increase from 13% to 20% is now required in Zone A and B categories. Zone category determines a value in calculations for properties. For example, for rental projects Zone A, contribution for the equivalent of 18% of the total number of units is multiplied by the Zone Factor of \$380,000 per unit; Zone B 15%, \$300,000, and Zone C, 15%, \$200,000. https://www.bostonplans.org/getattachment/91c30f77-6836-43f9-85b9-f0ad73df9f7c

	New York City, NY	Boston, MA
		Zone A: the neighbourhood median fell in the top third of sales values per square foot Zone B: the neighbourhood median fell in the middle third of sales values per square foot Zone C: the neighbourhood median fell in the bottom third of sales per square foot
Mandatory or Voluntary	Mandatory	Mandatory
Income Figures	Median household income USD \$70, 663 (2017-2021) in 2021 dollars https://www.census.gov/quickfacts/fact/table/newyorkcitynewyork#	Median household income USD \$81,744 (2017-2021) in 2021 dollars https://www.census.gov/quickfacts/fact/table/bostoncitymassachusetts/INC110221
Developments Impacts	Under the proposal, the City Planning Commission and ultimately the City Council would apply one or both of these two requirements to each Mandatory Inclusionary Housing area: • 25% of residential floor area must be for affordable housing units for residents with incomes averaging 60% AMI (\$46,620 per year for a family of three), or 30% of residential floor area must be for affordable housing units for residents with incomes averaging 80% AMI (\$62,150 per year for a family of three) • *In addition to one or both of the options above, the City Council and the City Planning Commission could decide to apply one or both of the following options: Deep Affordability Option • 20% of the total residential floor area must be for housing units for residents with incomes averaging 40% AMI (\$31,080 per year for a family of three) No direct subsidies could be used for these units except where needed to support more affordable housing Workforce Option • 30% of the total residential floor area must be for housing units for residents with incomes averaging 115% AMI (\$89,355 per year for a family of three) • No units could go to residents with incomes above 135% AMI (\$104,895/year for a family of 3) Options selected will be chosen by the City Council during their vote on the rezoning of the subject property. • The Workforce Option and Deep Affordability Option can only be mapped in conjunction with one of the other options, and no public funding, as defined in the Zoning Resolution, is permitted for the Workforce Option. The Workforce Option is not available in Manhattan Community Boards 1-8.	• Applies to any residential Proposed Project of ten or more units either: • Financed by the City • On property owned by the City or the BRA; or • That requires zoning relief. Proposed Policy: IZ • Developments that do not need zoning relief (built “as of right”) will still have to support income-restricted housing. • The trigger for participation will be lowered from 10 units to 7 units. • Under the new policy, rather than require a set number of inclusionary units, requirements will be calculated in square footage, to allow for more flexibility and the production of family-sized units. Asset Limits • Properties set-aside for incomes of less than 80% AMI: \$75,000 • Properties set-aside for incomes more than 80% AMI: \$100,000 • Applicants for rental units where all household members are over the age of 65 years: \$250,000 • Income guidelines vary by development, but most BPDA opportunities are available to renters with incomes up to 70% and homebuyers with incomes up to 100% of area median income (AMI).

	New York City, NY	Boston, MA
	No direct subsidies could be used for these affordable housing units • This could not apply to Manhattan Community Districts 1-8, which cover south of 96th Street on the east side and south of 110th Street on the west side	
Exemptions	N/A	• The Proposed Project is financed as one entity and 40% or more of the units within the proposed project are income restricted or otherwise preserved as affordable; • The Proposed Project is a Dormitory • As specified in applicable sections in the zoning code Proposed projects may choose to meet their IDP requirements by contributing the equivalent of 18% of the total number of units multiplied by the greater of either the Zone Factor for (Zone A, B, or C) or half the difference between the average actual market rate price and the affordable price per unit, by unit type
Incentives & Bonusing	Affordable housing is mandatory and permanent. Bonusing is available for developments	N/A
Set-aside Rate	Mandatory Inclusionary Housing will result in more affordable housing for a wider range of New Yorkers, all of it required as a condition to build housing on the land. It is responsive to neighborhood needs, with a set of income mix options that the City Planning Commission and Council can work together to apply within each rezoned area through the land use process. • 25% of residential floor are (RFA) 60% AMI (\$46,620 per year for a family of three), or • 30% of RFA 80% AMI (\$62,150 per year for a family of three) • additional policies can be put in place (said in development impact section)	Citywide, Proposed Projects subject to IDP may meet their requirements by designating 13% of the total number of units On-site. (a higher rate is being studied)
Unit Design Requirements	Unit design follows the HPD design guidelines for New Construction that address the following needs: • Accessible design + construction • Equitable & healthy buildings • Sustainability • Flood resistant • Active design • Aging in place • Commercial and retail spaces	All IDP Units are comparable in design and quality to the market-rate units • Not be stacked or concentrated on the same floors • Be consistent in bedroom count with the entire proposed project • Have comparable square footage as units in the rest of the Proposed project

	New York City, NY	Boston, MA
Depth of Affordability	Generally speaking, Inclusionary units must be affordable to low income households earning up to 80% of Area Median Income (AMI) and rents capped at 30% of 80% of AMI. However, in some Special Districts, depending on the district, a density bonus may be granted for moderate and/or middle income units (125% - 175% AMI).	Affordable to households earning between 80% to 120% of the Boston Area Median Income (AMI). AMI found here: Find out if you qualify
Option for affordability Ownership or Rental	Both rental and ownership	Both rental and ownership
Affordability Period	Permanent	30 years, with a subsequent extension of 20 more years at discretion of BRA, for an effective total of 50 years.
Sources	https://www1.nyc.gov/assets/planning/download/pdf/plans-studies/mih/mih_report.pdf https://www.nyc.gov/site/planning/zoning/districts-tools/inclusionary-housing.page https://zr.planning.nyc.gov/article-ii/chapter-3#23-012 https://zr.planning.nyc.gov/appendix-f/inclusionary-housing-designated-areas-and-mandatory-inclusionary-housing-areas https://www.nyc.gov/assets/hpd/downloads/pdfs/services/hpd-design-guidelines-for-new-construction.pdf	https://www.bostonplans.org/projects/standards/inclusionary-development-policy https://www.jpnc.org/development-guidelines/inclusionary-zoning/#:~:text=To%20ensure%20that%20there%20are,Area%20Median%20Income%20(AMI). http://www.bostonplans.org/housing/income-asset-and-price-limits https://www.bostonplans.org/news-calendar/news-updates/2022/12/15/mayor-wu-announces-strategy-for-inclusive-growth-b https://www.bostonplans.org/getattachment/da67d384-8323-4821-9dc8-3fb1aba6f852 https://www.bostonplans.org/getattachment/91c30f77-6836-43f9-85b9-f0ad73df9f7c

	City of Mississauga
Approach	Require IZ within PMTSAs via an assigned set-aside rate
Background	To provide a range of affordable prices and rents, the City, in consultation with the Region of Peel, will establish maximum prices and rents on an annual basis during the affordability period for affordable ownership housing units and affordable rental housing units as follows, and in accordance with Implementation Guidelines: • one-bedroom units will be priced at or below the maximum purchase price for the 4th income decile or rented at or below the maximum rent for the 4th renter income decile; • two-bedroom units will be priced at or below the maximum purchase price for the 5th income decile or rented at or below the maximum rent for the 5th renter income decile; and • three-bedroom units will be priced at or below the maximum purchase price for the 6th income decile or rented at or below the maximum rent for the 6th renter income decile. The City also receives a portion of the net proceeds from the sale of affordable ownership housing units.
Mandatory or Voluntary	Mandatory minimums and funding/incentives
Income Figures	Median Total Income (Toronto) (2020) (CAD \$)

	City of Mississauga
	All families: \$96,700 Couple families: \$104,960 Lone-parent families: \$59,120
Developments Impacts	Requires affordable housing units in new developments in the Major Transit Station Areas (MTSAs). More specifically new/redevelopments proposing 50 or more residential units, or 3,600 sqm or more of GFA, and located within specified IZ Areas. The percentage of GFA in Ownership Housing and rentals vary depending on each specific IZ Area, and the time period. This will provide a range of affordable prices and rents.
Exemptions	IZ By-laws will not apply to: • long-term care buildings, retirement buildings, hospices, staff/student residences, group homes, or not-for profit buildings; • Region of Peel or Peel Housing Corporation projects; • approved development, as specifically identified as exempt in the zoning by-law, that is already subject to an affordable housing contribution requirement as of June 22, 2022. IZ By-laws will apply to additional development permissions for such lands; • development or redevelopment meeting the exemption criteria under the Planning Act or related Ontario Regulations; and • notwithstanding 7.3.2, in no case will IZ By-laws apply to development or redevelopment of less than 10 residential units. • Projects where non-profit housing provider has an interest that is > 51% and > 51% of units are affordable. • Projects with rezoning and / or OPA application(s) along with a subdivision or condominium application at the time the IZ OP policies are adopted. • Projects with a building permit or site plan application at the time the IZ By-law is passed.
Incentives & Bonusing	Financial incentives will not be provided for affordable housing units provided in accordance with Policy 7.3.2 of this Plan. An IZ By-law may identify reductions to parking rates for affordable rental housing units and affordable ownership housing units in accordance with recommendations of City-wide parking studies.
Set-aside Rate	• Mississauga's IZ Official Plan Policy (August 10, 2022): After an initial phase-in period, Mississauga's Official Plan requires set-aside rates that range from 5% to 10% depending on the location in the city. • Proposed Change to Provincial Regulation O.Reg. 232/18: Currently, there is no upper limit to the set-aside rate in the Provincial Regulation. The Province of Ontario is proposing to limit the maximum set-aside rate a municipality can require to 5%. • See Table 2
Unit Design Requirements	• n/a
Depth of Affordability	• Mississauga's IZ Official Plan Policy (August 10, 2022): Mississauga's current Official Plan policies indicate that housing is affordable if it costs no more than 30% of gross annual household income. The IZ policy is targeted to housing for moderate income households. • For affordable ownership units, this equates to prices that are no greater than about 50% to 60% of resale market prices. • For affordable rental units, this equates to rents that are no greater than Average Market Rent as established by Canada Mortgage and Housing Corporation (CMHC). • Proposed Change to Provincial Regulation O.Reg. 232/18 : Currently, there are no price/rent requirements in the Provincial Regulation. Other Provincial policy documents define affordability as housing that costs no more than 30% of gross annual household income. • The Province is proposing to require that municipalities cannot set the affordable price any lower than 80% of resale prices for ownership units

	City of Mississauga
	The Province is proposing to require that municipalities cannot set the affordable rent any lower than 80% of Average Market Rent for rental units.
Option for affordability Ownership or Rental	N/A
Affordability Period	- Mississauga's IZ Official Plan Policy (August 10, 2022): Currently, ownership units must stay affordable for 99 years and rental units must stay affordable for 25 years (plus a 5-year phase out). - Proposed Change to Provincial Regulation O.Reg. 232/18: The current Provincial Regulations do not set any limits to the affordability term. The Province is proposing to change the regulation so that the maximum affordability period a municipality can require is 25 years.
Sources	https://yoursay.mississauga.ca/inclusionary-zoning-policy-for-affordable-housing Next steps doc https://www.mississauga.ca/city-of-mississauga-news/news/more-affordable-housing-for-mississauga-inclusionary-zoning-moves-forward/

Appendix 2 – Planning Act Requirements and How Addressed

The Table below sets out a comprehensive list of the provisions and requirements and outlines how each issue is or will be addressed

Planning Act Requirements	How Addressed
16(4) Official Plan may include IZ policies where MTSAs have been identified or in community Planning Permit Areas	Region Official Plan Amendment No 6 Includes Identifies PMTAS. It was adopted in August 2023 and approved by the Minster in April 2023. Lower tier municipalities (now forming part of an upper-tier municipality without planning responsibilities) will be amending their Official Plans to identify PMTASs in ROPA 6 as per the Planning Act
16(6)OP must include IZ goals and objectives and measures and procedures to attain these	Needs to be included in Cities' Official Plans
16(9) Prepare an assessment report before adopting IZ policies	See Assessment Report section of this report
16(10) Assessment reports must be updated every 5 years to determine if IZ policies should be amended	WKC+R must plan and budget assessment report updates as described in the monitoring and reporting section of this report
16(16) where there is upper planning authority IZ can only apply where upper tier OPs have PMTSA identified, delineated and include minimum targets for person and jobs per hectare; as well as policies requiring lower tier OPs to regulate land use and minimum building densities in upper tier official plan	Current regime to be replaced by bill 23 on a date to be proclaimed. It is expected to be no earlier than Winter 2024.
16(15) Where there is no upper tier planning authority IZ can only apply where (Area Municipal) OPs have PMTASs identified, delineated and include minimum targets for person and jobs per hectare, regulations regarding use and minimum densities for buildings	Assuming the regime will be in effect. IZ must be co-incident with or follow updated lower tier OP policies for MTSAs that include these provisions
17(24.1.2-24.1.3); 17(36.1.2); 34(11.0.6); 34(19.3-19.3.1) IZ zoning by-laws and OP policies, requirements and standards cannot be appealed except by the Minster	No action required
35.2(1) Council may pass zoning by-laws to give effect to IZ policies under section 16(4). It must include any prescribed Provincial standards	(There are no prescribed standards)
35.2(2)a an IZ bylaw shall require and specify the number of affordable housing units required or; the gross floor area required	See Set-Aside Rate section of this report 22
35.2(2)b an iz by-law shall require that units be maintained as affordable for a period of time	See discussion of Duration of Affordability section of this report 33

Planning Act Requirements	How Addressed
(c-d) may require that the affordable housing units meet additional requirements and standards specified in the by-law	See discussion on Unit Size and Number of Bedrooms section of this report Error! Bookmark not defined.
(e-f) may provide for measures and incentives to support those policies	See discussion of Incentives and Offsets section of this report 45
g) shall require that when the affordable housing units are sold or leased, they be priced or leased at the rent determined under the by-law	See Unit Ownership and Occupation section of this report Error! Bookmark not defined.
(h) shall include the prescribed provisions and provisions about the prescribed matters; and	Various
li) shall require that the owners of any to enter into agreements with the municipality, dealing with the matters mentioned in clauses (a) to (h) and ensuring continued compliance	See Implementation and Administration section of this report 51
35.2(3-4) council shall establish a procedure to ensure that affordability is maintained	See Implementation and Administration section of this report 51
35.2(5) council may authorize the provision of required affordable units offsite	See Incentives and Offsets section of this report
35.2(6) Council may not accept cash in lieu of affordable units	Cash in lieu not included in by-law or policy
(7) Agreements may be registered on title	See Implementation and Administration section of this report 51
(8) The remedies for non-compliance with an agreement outlined in section 446 of the Municipal Act are Applicable (viz right of entry, adding cost to tax roll, charge interest and apply liens)	See Implementation and Administration section of this report 51
(9) municipalities shall provide prescribed reports and information concerning affordable units.	See Monitoring and Reporting section of this report Error! Bookmark not defined.

O. Reg. 232/18 Requirements	How Addressed
1. An analysis of demographics and population in the municipality.	An analysis of all the requirements is addressed in the 2020 NBLC report, The Kitchener Housing Needs Assessment Report (2020), City of Waterloo, Need and Demand Analysis (2020), and Region of Waterloo Housing and Homelessness Assessment (2019). Cambridge is intends to ensure are these requirements are addressed through the Regional Official Plan, A Cambridge Official Plan Official Plan review, and ongoing housing studies.
2. An analysis of household incomes in the municipality.	An analysis of all the requirements is addressed in the 2020 NBLC report, The Kitchener Housing

O. Reg. 232/18 Requirements	How Addressed
3. An analysis of housing supply by housing type currently in the municipality and planned for in the official plan.	Needs Assessment Report (2020), City of Waterloo, Need and Demand Analysis (2020), and Region of Waterloo Housing and Homelessness Assessment (2019). Cambridge is intends to ensure are these requirements are addressed through the Regional Official Plan, A Cambridge Official Plan Official Plan review, and ongoing housing studies.
4. An analysis of housing types and sizes of units that may be needed to meet anticipated demand for affordable housing.	
5. An analysis of the current average market price and the current average market rent for each housing type, taking into account location in the municipality.	
6. An analysis of potential impacts on the housing market and on the financial viability of development or redevelopment in the municipality from IZ by-laws, taking into account: i. value of land, ii. cost of construction, iii. market price, iv. market rent, and v. housing demand and supply.	
7. A written opinion on the analysis described in paragraph 6 from a person independent of the municipality and who, in the opinion of the council of the municipality, is qualified to review the analysis.	This is addressed in Urban Metrics' peer review dated September 16, 2020.

Official Plan Policies	How Addressed
Official plan policies described in subsection 16 (4) of the Act shall set out the approach to authorizing IZ, including the following:	
1. The minimum size, not to be less than 10 residential units, of development or redevelopment to which an IZ by-law would apply.	See Exemptions section of this report 40
2. The locations and areas where IZ by-laws would apply.	IZ is anticipated to apply to all 24 MTSA's in Waterloo Region. Policy requirements are proposed to be tailor based on the market of each individual MTSA
3. The range of household incomes for which affordable housing units would be provided.	See Administration section of this report
4. The range of housing types and sizes of units that would be authorized as affordable housing units.	See Unit Size and Number of Bedrooms section of this report Error! Bookmark not defined.
5. the number of affordable housing units, or the gross floor area to be occupied by the affordable housing units, that would be required.	See discussion of Set-Aside Rate section of this report 22

Official Plan Policies	How Addressed
6. the period of time for which affordable housing units would be maintained as affordable.	See discussion of Duration of Affordability section of this report
7. How incentives would be determined	See Incentives and Offsets section of this report 45
8 how the price or rent of affordable housing units would be determined	See Maximum Rent or Price section of this report 33
9. the approach to determine the percentage of the net proceeds to be distributed to the municipality from the sale of an affordable housing unit, including how net proceeds would be determined	See Unit Ownership and Occupation section of this report Error! Bookmark not defined.
10. The circumstances in and conditions under which offsite units would be permitted,	See Incentives and Offsets section of this report 42
11. the circumstances in which an offsite unit would be considered to be in proximity to the development or redevelopment giving rise to the by-law requirement for affordable housing units.	See Incentives and Offsets section of this report 42
12. the procedure required under subsection 35.2 (3) of the Act to monitor and ensure that the required affordable housing units are maintained for the required period of time	See Monitoring and Reporting section of this report Error! Bookmark not defined.
13. Net proceeds of sale A by-law and registered agreement may require a portion of the proceeds of a sale of an affordable ownership housing unit be distributed to the municipality (no more than 50%)	Affordable Ownership not recommended 42
14. Offsite Units Offsite units cannot be provided unless there are circumstances and conditions that need to be satisfied spelled out in the official plan. Offsite units must be in proximity to the subject development, located on lands where IZ policies apply, and not be double counted	See Incentives and Offsets section of this report Error! Bookmark not defined.

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Memorandum

To: City of Waterloo
City of Kitchener
City of Cambridge
Region of Waterloo

From: N. Barry Lyon Consultants Limited

Date: September 22, 2022

RE: Inclusionary Zoning Development Model Update
User Manual

1.0 Introduction

N. Barry Lyon Consultants Limited ('NBLC') has been retained collectively by the Cities of Waterloo, Kitchener, Cambridge and the Region of Waterloo ('the client group' to update a financial model that was previously prepared for the same client group to consider opportunities for Inclusionary Zoning (IZ) in 2019. This financial model is intended to aid key staff and decisionmakers in testing inclusionary zoning policy parameters and their impacts on underlying development economics. This memorandum provides further information on how to utilize the attached financial model, but also how to interpret its results.

2.0 Disclaimer, Model Use and Distribution

The attached Excel file contains spreadsheets related to research and analysis conducted in support of an assessment of IZ throughout the study area. These spreadsheets have been provided to select staff at the Cities of Waterloo, Kitchener, Cambridge, and the Region of Waterloo for internal review and testing purposes only. Any structural changes made may cause the model to cease to function correctly.

The distribution of this material beyond the client group is prohibited. These spreadsheets and their results are highly sensitive to changes in formulas or data. NBLC assumes no responsibility for the contents of these spreadsheets after distribution to key staff in the client group. Moreover, NBLC makes no representation with respect to financial modelling results without detailed study and independent verification.

The conclusions and results contained in this analysis 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.

A major variable affecting the outcomes of this analysis is the rapidly changing cost of construction. The findings of this analysis reflect market conditions (revenues and costs) as of mid-2022. The hard costs of high-density housing have seen dramatic increases over the past two years because of supply chain and labour constraints related to the COVID-19 pandemic. Combined with rising interest rates, there is currently a significant degree of uncertainty in the near-term outlook for residential development projects. More importantly, while we have developed hard cost assumptions using up to date industry information, the actual costing of each project could vary significantly for many reasons including geotechnical complexity, environmental remediation, site scale and location, among others. Additionally, the selection of the test sites and typologies, while intended to be reflective of common forms of development in some of the Region's key market areas, are not able to capture the nuance of all development forms, ownership conditions, and site-specific characteristics across the cities.

Also related is the nature of development or redevelopment potential throughout some areas of the cities. This analysis isolates evaluation to one single development phase. However, in some locations, the nature of redeveloping areas is such that larger sites will result in multi-phase developments. Project pre-development approval timelines are also consistent throughout the test sites in this review, however, we acknowledge that in practice, some projects could get delayed while others may proceed faster. The pace at which a project proceeds from conception to building permit can be a particularly important consideration.

This analysis cannot capture certain nuances arising from the nature of a historical land purchase or the capitalization of land costs through the operation of an income-generating use. Nor can it contemplate the acquisition of land at speculative values, not fully appreciating the magnitude of impacts from future policy adjustments. Similarly, this analysis cannot account for all potential variations in the value of alternative land uses in a given area. Actual valuations will vary from property to property according to a wide range of site and incumbent landowner expectations.

NBLC, therefore, assumes no responsibility for losses sustained as a result of implementing any recommendation arising in this analysis. This analysis 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 NBLC.

3.0 Key Changes From Previous Model

Since the completion of our initial analysis (Spring 2020), several key changes have been made within our model that are worth highlighting.

Revenue Inputs

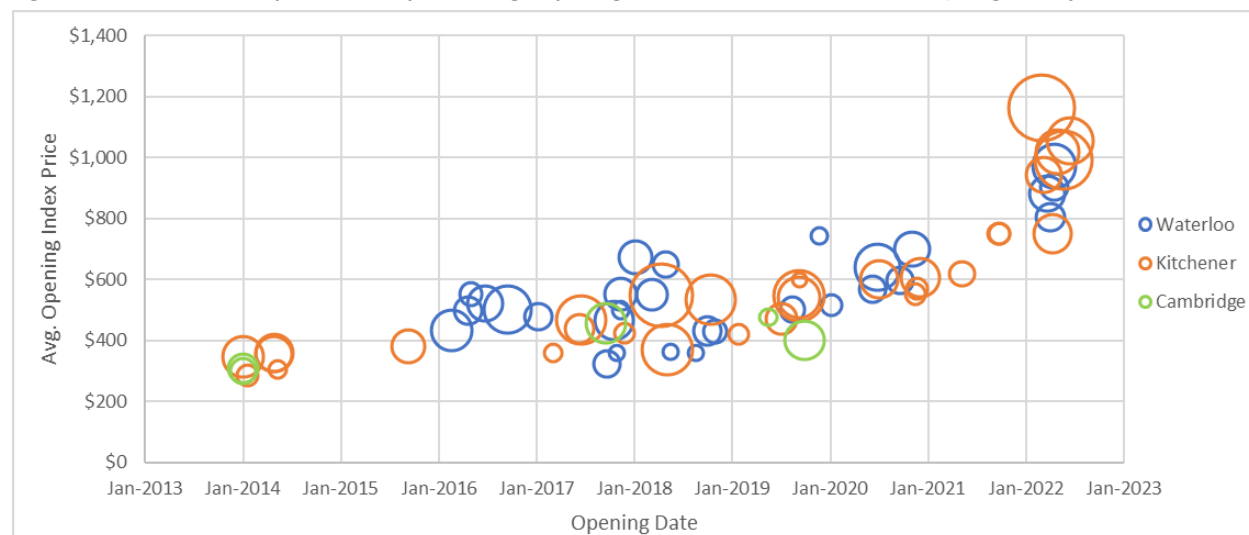
New condominium apartment pricing in Waterloo Region has undergone substantial growth since the previous study, as shown in **Figure 1**. During the previous study, our testing assumed average index values ranging from \$480 to \$675 psf, which was based on market comparables at the time. Our current model utilizes significantly

higher project index pricing, with values ranging from \$847 to \$1,044 psf. These assumptions are supported by several new projects that have successfully pushed pricing thresholds in Waterloo Region. Similarly, it is increasingly common for new condominium apartment projects to charge an additional fee for parking. We have included a separate parking fee at all of our test sites, whereas previously, many of the softer market areas included parking in the purchase price.

As pricing has continued to grow, many new projects are offering increasingly compact unit sizing to keep end pricing down for purchasers. Given this, we have modelled slightly smaller unit sizing than in the previous iterations of this model. Most of the sites were previously modelled with an average unit size between 750 and 850 square feet. Our current model uses average unit sizing of between 618 to 713 square feet, depending on the market area.

Finally, market evidence suggests that the level of demand for new condominium apartment units has grown considerably since the previous study, likely as an increasing number of would-be low-rise purchasers have been priced out of the market. This change has resulted in us using higher absorption rates than in the previous model.

Figure 1 – Condominium Apartment Project Average Opening Index Price, KCW, 2013 to 2022 (Weighted by Number of Units)



Source: Altus Group

Cost Inputs

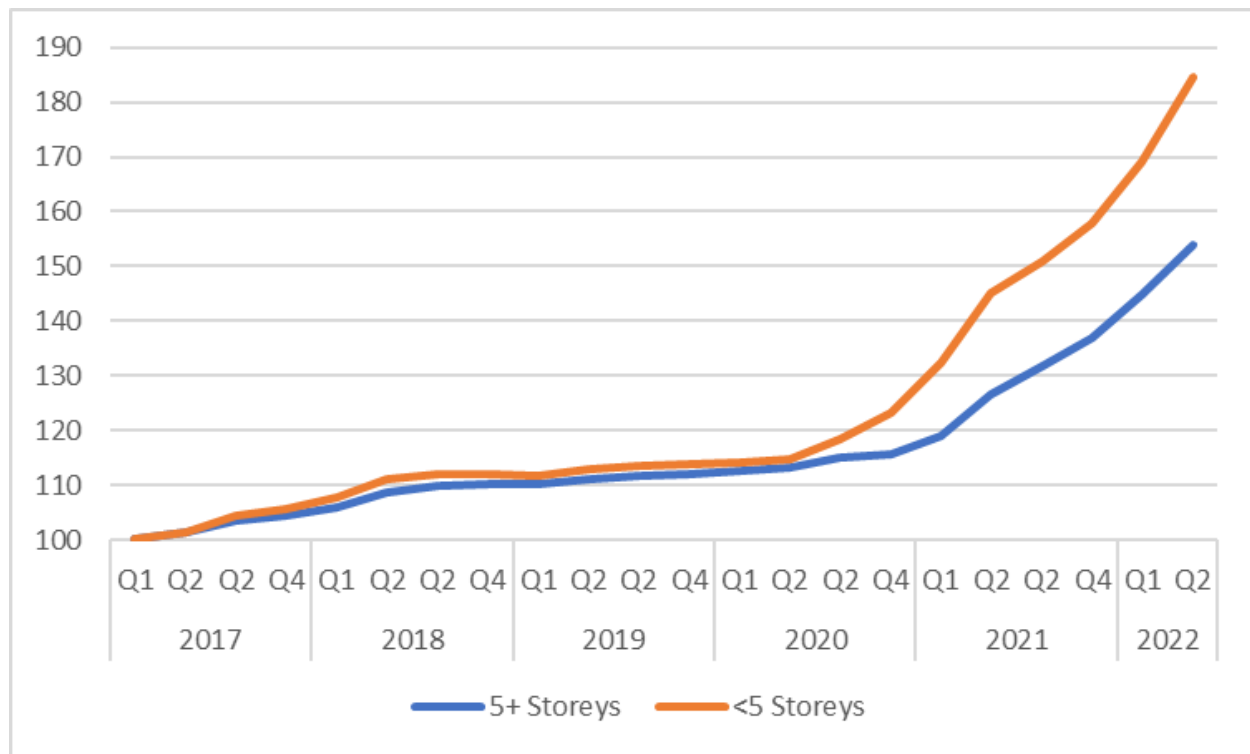
The cost of construction has experienced considerable escalation since the previous study. While Statistics Canada does not produce a Building Construction Index for KCW, **Figure 2** illustrates the rate of cost escalation for new apartments in the GTA – a reasonably proxy for KCW. After modest growth for several years, supply chain challenges and labour shortages have pushed the cost of construction up significantly since 2020. From Q2 2020 to Q2 2022, the average cost of construction has risen by 36% for 5+ storey apartments and 61% for apartments under five storeys. Our current model has utilized the most up to date costing information from the 2022 Altus Canadian Construction Cost Guide. However, we note that this is published in the first quarter of each year, and costs have continued to inflate throughout 2022.

Our current model has also used the most up to date soft costs, including the most up to date municipal fees, many of which have increased since the previous analysis. This includes planning fees, building permit fees,

parkland dedication rates, and development charges. Further, we have utilized a Community Benefit Charge (‘CBC’) equivalent to 4% of the land value in our model. This charge was not present in the previous model.

Finally, it is worth noting that the current model uses construction loan interest rates that are much higher than in the previous model. The current model uses a construction loan interest rate of 6.45% (prime plus 100bps), whereas the previous model utilized a construction loan interest rate of 4.50%.

Figure 2 – Building Construction Price Index, GTA, Indexed to Q1-2017



4.0 Development Value vs. Existing Use Value

Underpinning our analysis is the concept that each parcel of land has both a Development Value (DV) and an Existing Use Value (EUV). The DV is the parcel’s value to someone who wants to build something on the land. In our circumstances, this refers to what a residential developer would be willing to pay to acquire the parcel. The EUV is the value of the land based on its existing use. When the DV is greater than the EUV, redevelopment is likely. When the EUV is greater than the DV, redevelopment is unlikely.

On their own, inclusionary zoning policies will reduce a parcel’s DV as the developer would be required to construct a portion of units at a production cost that is below the market value of those units. This reduction in DV can be sustainable if a parcel’s DV remains above its EUV, however, the rate and magnitude of change can also be notable and significant as it relates to projects which are currently in the development pipeline, and/or where developers have already acquired parcels with intentions for near-term development. If the policies become so onerous that the DV falls below the EUV, this parcel would no longer be considered a candidate for redevelopment. This would reduce the supply of land that could be used for new housing – an unintended and undesirable consequence.

Conversely, municipalities can offer incentives, both financial and non-financial, that help to offset the reduction in DV brought on by the introduction of inclusionary zoning policies. These offsetting measures can help ensure that the municipality is still able to achieve its affordable housing objectives through inclusionary zoning, without negatively impacting the supply of land available for redevelopment. In many jurisdictions where IZ policies are considered to be successful, offsetting measures play a significant role in policy design and calibration.

5.0 Interpreting the Dashboard

Understanding this economic concept of DV and EUV, our model attempts to quantify the impact that inclusionary zoning policies and offsetting measures may have on the DV value of typical sites across a variety of geographies in Waterloo Region. In the chart at the bottom of our dashboard, a test site's DV is shown as a bar for each of the four adjustable policy arrangements. This DV can then be compared against the site's EUV, as input by the user, which is displayed as a line in the same chart. From this, two key findings should be considered:

The DV Relative to the EUV.

Most importantly, if the DV of the test site falls below the EUV value, this would be considered an undesirable outcome. It would mean the inclusionary zoning policy has sterilized the site from redevelopment, thereby restricting the potential supply of new housing, both market and non-market.

The Rate/Magnitude of Change in the DV From the Status Quo.

The rate of change in the DV is also important. Too significant of a drop in a short period of time could lead to landowners withholding their lands from the market, even if the DV remains above the EUV, until pricing has recovered. Again, this too could mean that the inclusionary zoning policy has restricted the supply of new housing, both market and non-market.

6.0 How to Utilize the Dashboard

Under the tab 'Land Values and User Inputs' tab of the workbook, existing land values can be input for each of the ten MTSA's. This value should be expressed on a \$million per acre basis. These values could represent the value of a prevailing land use typology, more general averages, or a specific site value within that MTSA's market area, presumably based on data provided by realty services or appraisals. However, it is also important to acknowledge instances where a premium could be required as part of a land transaction in order to entice an existing land/ business owner to sell their site.

Once these existing land use values have been entered, various policy parameters can be adjusted under the 'Dashboard' tab in the workbook to arrive at a DV for each scenario. To begin, the MTSA to be tested can be selected in cell H10. Various policy parameters and offsetting measures can be selected in columns C through Column F. As these parameters are adjusted, the DV bar will adjust in real-time.

Of note, while the parameters can be adjusted in the first Column (Column C), it is optimal to leave this column ‘as is’, so that it represents the existing baseline policy. This allows the user to easily see the impact of inclusionary zoning policies and offsetting measures on the DV.

Figure 3 – All Four Policy Scenarios Produce a DV that is Higher than the EUV (Redevelopment is Likely)

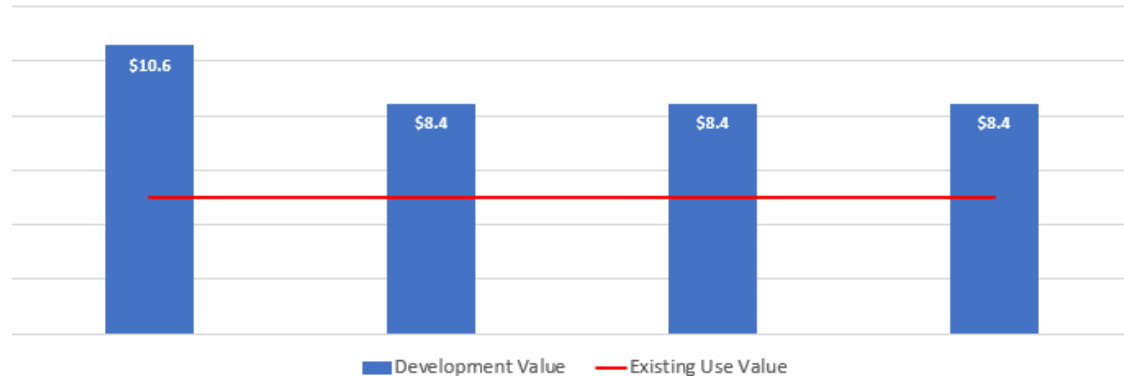


Figure 4 – Three of the Four Policy Scenarios Produce a DV that is Lower than the EUV (Redevelopment is Unlikely)



Some Scenarios May Not be Viable

In some instances, a combination of development and policy parameters may not ‘pencil’, meaning that even if there were no land costs associated with the development, the costs of the project would outweigh the potential revenue. In these instances, a developer would not go ahead with the development under any circumstance. When this happens, the DV bar will display as a negative and the residual land value shown in row 45 will be highlighted in red.

Solving Calculation Errors

As the Dashboard’s background model utilizes multiple circular references (e.g., often elements related to parkland calculations/ property tax/ land transfer tax), there may be instances where iterative calculations produce an error, outputting “N/A” instead of numerical values. If this happens, the calculation error can be broken with the ‘Model Fix Button’ on the ‘Dashboard’ tab (H13). Simply select “Fix” from the drop-down menu, then revert to “OK”. This button must be set to “OK” for the model to calculate properly.

If this does not properly fix the broken calculations, please ensure that iterative calculations are turned on within Excel's options. To do this go to Excel's options page under the 'File' tab, and under 'Formulas', ensure that 'Enable Iterative Calculation' is selected.

7.0 Model Parameters Descriptions

The following section describes the selection parameters from our dashboard.

Development Selections

- **MTSA** – Selects one of the ten MTSA's. Each MTSA has been assigned market parameters that best reflect its local area.
- **Lot Size (Site Area)** – Can be set between 0.5 acres and 1.5 acres. Of note, in order to accommodate parking, smaller lot sizes may result in some high-rise building typologies surpassing the standardized 24-storeys. Information regarding building height is shown in row 28 in the 'Dashboard' tab of the workbook.
- **Development Type** – This selects the building typology to be tested. This is based on a high-level review of recent apartment projects in Waterloo Region, with input from staff. The following table highlights key built-form parameters.
- **Principle Tenure** – This selects the principle tenure for the market units in the development. Of note, due to prevailing economic conditions, most rental projects do not 'pencil' in Waterloo Region, and therefore do not represent the DV of these hypothetical developments.
- **Commercial Space At-Grade** – This selection determines whether the hypothetical development includes commercial space at grade, or if the building is entirely residential.

Table 1

Built Form Inputs				
Input	Low-Rise Apartment	Mid-Rise Apartment	High-Rise Apartment	Comments/Source/Units
Site Area	43,560	43,560	43,560	square feet
Gross Floor Area (GFA)	90,000	130,000	225,000	square feet
Residential GFA	85,000	125,000	217,000	square feet
Commercial GFA	5,000	5,000	8,000	square feet
Total Storeys Before Bonus Density	6	12	24	storeys
Construction Period	1.5	2.5	3.5	estimate
Podium Storeys	6	4	6	estimate

- **AH Set Aside Rate** – This selects what percent of the building's residential GFA will be dedicated to non-market housing.
- **IZ Unit Tenure** – This selects the tenure of the non-market housing units with options for either condominium ownership, purpose-built rental, or rented condominium units. Of note, affordable condominium ownership rates have not been provided to NBLC. As such, under the 'Land Values and User Inputs' tab, these values can be input manually.

- **Duration of Affordability** – Selects whether the non-market housing units will be maintained at affordable rates for 25 years or in perpetuity. This only applies to rented non-market units, not affordable ownership units.
- **Set Aside Application** – Selects whether the affordable housing set aside rate is applied to the project’s total residential GFA or just to any bonus residential GFA that may be provided as an offsetting measure.
- **Depth of Affordability** – Selects the depth of affordability for the non-market housing units as a percentage of AMR (CMHC average market rent).
- **Additional Density** – Sometimes additional density can offset the negative impact of inclusionary zoning policies. This allows bonus density to be applied to the project as a percent of the total residential GFA.
- **Parking Ratio (Relative to Market)** – This selection allows a reduction in the number of parking units that are required for the non-market units relative to what is required for the market rate units. For example, if a parking ratio of 1.0 is utilized for the market rate units, a 50% reduction would mean the non-market units have a parking ratio of 0.5.
- **DC Waiver** – These selections allow for a percentage reduction in the Development Charges (both local and regional).
- **Parkland Waiver** – This allows for a percentage reduction in the parkland dedication fees.
- **BP Fee Waiver** – This allows for a percentage reduction in the building permit fees.
- **Planning Fee Waiver** – This allows for a percentage reduction in the planning fees.
- **Waiver Rebate Application** – This determines whether the DC waiver, the parkland waiver, the BP waiver, and the planning fee waiver are applied to all units in the development or just the non-market units only.
- **Property Tax Abatement** – This allows for a percentage reduction in property taxes (either local or regional) for the non-market units for the duration of their affordability period.
- **Capital Subsidy** – This allows for an upfront, one-time capital subsidy contribution to any of the development scenarios.

Market Areas

Finally, while not a selectable parameter, our model has three categorical market areas – Prime, Established, and Emerging – with each MTSA being assigned one of these market areas. Each of market areas comes with a set of parameters that best reflect existing market conditions in Waterloo Region. These parameters are shown below in **Table 2** and the market area assigned to each MTSA is shown in **Table 3**.

Table 2

Market Area Inputs			
	Prime	Established	Emerging
Unit Mix and Size			
Avg. Unit Size	618	650	713
Studio (%)	10%	10%	0%
One-Bedroom (%)	50%	45%	50%
Two-Bedroom (%)	40%	45%	50%
Three-Bedroom (%)	0%	0%	0%
Parking & Locker			
Residential Parking Ratio (Market)	0.5	0.7	1.0
Commercial Parking Ratio	2.0	2.0	2.0
Visitor Parking Ratio	0.1	0.1	0.1
Storage Locker Ratio	0.75	0.75	0.75
Pricing and Absorptions			
Market Index Price (Condo)	\$1,040	\$920	\$850
Parking Sale Price (Condo)	\$50,000	\$40,000	\$30,000
Locker Sale Price (Condo)	\$7,500	\$7,500	\$7,500
Sales Absorption Rate	40	30	20
Market Index Price (Rental)	\$3.30	\$3.05	\$2.75
Parking Price (Rental)	\$150	\$120	\$100
Locker Price (Rental)	\$75	\$75	\$75
Net Lease Rate	\$30	\$25	\$20
Rented Condo OpEx Excl. Property Tax	\$5,311	\$5,590	\$6,128

Table 3

MTSA Market Areas		
MTSA	Municipality	Market Area
Conestoga	Waterloo	Established
University of Waterloo	Waterloo	Prime
Uptown Waterloo	Waterloo	Established
Midtown	Waterloo	Established
Downtown Kitchener	Kitchener	Prime
Rockway	Kitchener	Emerging
Fairway	Kitchener	Emerging
Preston	Cambridge	Emerging
Hespeler Road	Cambridge	Emerging
Downtown Cambridge/ Main	Cambridge	Prime

Disclaimer: The conclusions contained in this analysis have been prepared based on both primary and secondary data sources. NBLC makes every effort to ensure that 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 analysis.

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

Region of Waterloo and Tri-cities Inclusionary Zoning Study: Engagement Report



February, 2023

Prepared by LURA
Consulting Inc.

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Project Background

In 2019 the cities of Kitchener, Waterloo and Cambridge and the Region of Waterloo started to investigate the development of an inclusionary zoning policy in each of the tri-cities within the framework of the Official Plan for Waterloo Region.

Inclusionary zoning allows cities to require private developers to include a certain percentage of affordable units within new, multi-unit housing developments of ten units or more. The tool can be applied to areas around ION stations - called Protected Major Transit Station Areas (MTSAs.)

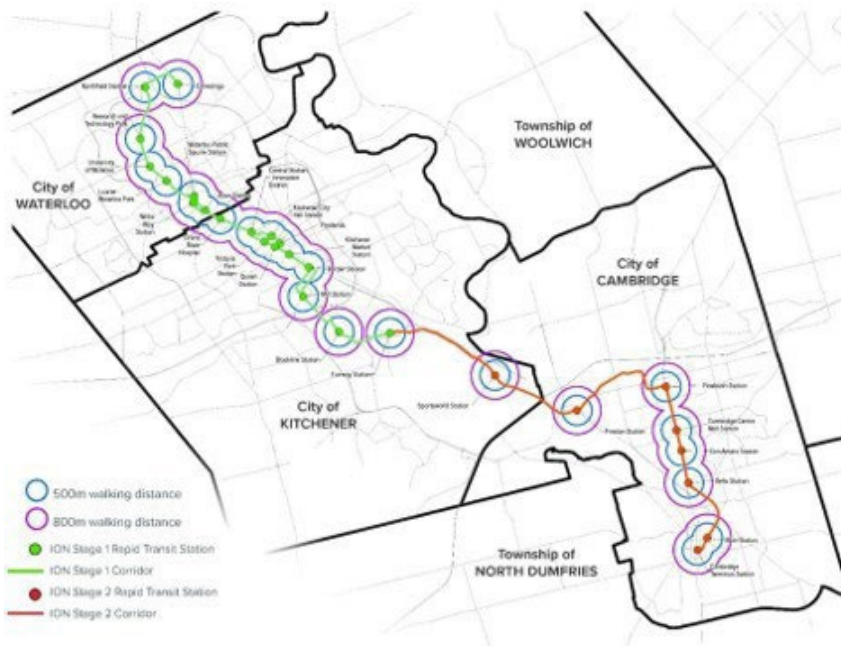


Figure One: Map of ION route where intensification is planned.

In partnership, the tri-cities and the Region contracted N. Barry Lyon Consultants Ltd. (NBLC), a land economics firm, to carry out an assessment of the economic feasibility and financial impact of a potential inclusionary zoning framework for selected MTSAs throughout the region. The results of the NBLC financial impact assessment, a peer review of the NBLC report, and a summary of stakeholder feedback was then presented to respective city councils between Fall 2020-Spring 2021.

In Fall 2022 the project shifted to begin consideration of Official Plan and Zoning by-law amendments to implement inclusionary zoning. The tri-cities retained LURA Consulting to develop and implement a public engagement strategy. The goal of the engagement was to seek specific feedback on policy direction questions from a variety of perspectives. Participants included those who could potentially benefit from an inclusionary housing policy, not-for-profit and for-profit housing providers, and the community at large. This report presents a brief overview of earlier engagement activities and a detailed review and synthesis of the feedback gathered since Fall 2022.

Engagement Summary

The engagement process identified a general, broad level of support for further developing and implementing an Inclusionary Zoning Policy. It identified a strong desire to create a flexible policy to achieve the goal of providing more affordable units as soon as possible. Engagement participants suggested limits to the height and density trade-offs that might be allowed to secure affordable units through the tool, while at the same time indicating a willingness to be flexible in support of the goal of new affordable homes.

Early Awareness and Beneficiary Preferences

One engagement challenge was to ensure that participants understood that the level of affordability offered by an IZ program without additional incentives was not the deep level of affordability required for those receiving social assistance. This challenge was met by providing additional context, guidance and explanation in on-line postings as well as at in-person meetings.

Builder Comments

The development community was concerned about the effect of the policy regulations on the financial impact to future projects. In particular, impacts on project viability, impacts on the price of market rate units, financing horizons, aligning with the Canada Mortgage and Housing Corporation (CMHC)'s Rental Construction Finance Initiative, and CMHC average market rent definitions were highlighted as areas to review. The development community indicated a strong preference for flexibility to deliver requirements off-site and encouraged the tri-cities to have a unified approach to the policy for the administration of IZ units.

Priorities and Flexibility

Through the on-line survey and the in-person feedback, some policy preferences were clear with more nuance and lukewarm support in other policy areas.

The following priorities were clearly indicated in engagement with the general public:

- A general preference that the policy focus on the provision of two bedroom or larger units
- Support for IZ units to be incorporated into the new buildings along the corridor
- A high degree of support for financial incentives to off-set development costs where the incentives helped meet the goals of additional affordable units or increased duration and affordability of the units
- Support for targeting rental units within the policy

Participants were not united in their support for additional height and density allowances. Some identified little concern for allowing additional heights to meet the end goal of additional affordable units, while others were more hesitant to make too many trade-offs in built form. As well, no clear consensus emerged with regards to recommendations on the appropriate price/rental point for the IZ units.

A slight preference for prioritizing the greatest level of affordability in new units was identified over duration of affordability and set aside rates.

Feedback from all sources outlined concerns about the limitations of Inclusionary Zoning as a policy to address affordability. This new policy tool was identified as a further option alongside more established tools and supports such as social housing. An additional common thread was the idea that partnerships and flexibility are needed to ensure a successful program. Developers, affordable housing providers, regulators and the community at large will need to seek out new partnership opportunities in order to meet the goal of providing additional affordable housing in the region.

Engagement Methods and Participation

In order to reach a broad spectrum of the public in Waterloo Region, a variety of methods were used throughout the project lifecycle. The use of multiple engagement tactics lowers barriers to participation and recognizes different preferences and opportunities for citizen engagement. The following are the methods of engaged used during the project. Engagement-specific summaries can be found in subsequent sections.

Digital Engagement: EngageWR (<https://www.engagewr.ca/inclusionary-zoning>). The project page was housed within the Engage Kitchener Hub on the regional EngageWR site, but was also available directly through a link on each of the area municipalities' Engage hubs.

Interest Group Sessions: The project team held listening-based facilitated meetings, both-in person and virtual, focused on generating dialogue from not-for-profit housing providers, the development industry community and future beneficiaries of an IZ policy.

Online Survey: An online survey was posted on the Engage project page.

Public Meeting: A broad community meeting was hosted at a location accessible to residents from any of the three municipalities.

Email/Phone: Contact information for the project team was posted on the Inclusionary Zoning Engage page. Names and photos of project team members were included.



Figure Two: Screen shot from Eventbrite Public Notice

Educational Videos

Given the complexity of the subject matter and technical language involved in the work, the tri-cities also commissioned the development of two educational videos for posting online. The theme of [the first](#) video was affordable housing and it included an introduction to Inclusionary Zoning as a tool within the spectrum of policies to create affordable housing.

The second video focused on the specific meaning and facets of the Inclusionary Zoning policy is forthcoming.



Figure Three: Still from Video #1

Engagement and Reach

The following tables summarize the reach, or participation rates, of the various methods of engagement used.

EngageWR Inclusionary Zoning Page

The EngageWR portal served as an active driver of participation in the project with over 3,300 visits to the site. In addition to serving as a source of information about the project, the site generated active engagement from over two hundred participants who left comments or filled out a survey on the site as of January 31, 2023.

EngageWR IZ Project Pages March 24,2020-January 31, 2023	
Website visitors who viewed at least one page	3,330
Ideas Page Visits	267
Ideas Page Commenters	109
Online Survey Page Visits	175
Online Survey Responses	89
Guest Book Page Visits	341
Guest Book Commenters	22
Document Downloads from the site	924

The primary sources of traffic to the EngageWR page are indicated below. Search engine inquiries and links to the page generated through the EngageWR electronic newsletter drove most traffic to the site. Social media also generated considerable traffic to the site with a lower number of traffic coming from the municipal web page and traditional news media website.

Inclusionary Zoning Engage Page: Top Sources of Traffic	
Google	972
Engage Newsletter	579
Twitter	187
Facebook	148
Kitchener Citynews.ca	69
Kitchener.ca/MyKitchener.ca	49

Members of the public demonstrated confidence in the capacity of the EngageWR page to serve as a source of official documents and a repository of project information. Over 900 documents were downloaded from the site as outlined in the table below.

Document Name	Downloads
Kitchener staff report to council -September 2020	303
Inclusionary Zoning stakeholder engagement session presentation -March 2020	226
Evaluation of potential impacts of an affordable housing inclusionary zoning policy	203
Frequently asked questions	105
Waterloo staff report to council Dec 7, 2020	103
Total	940

Who Participated

As outlined in the Engagement Methods and Participation section above, the tri-cities Inclusionary Zoning engagement strategy used several techniques to reach different audiences. To lower barriers to participation- such as time constraint challenges, or the need to secure childminding- both digital and in-person engagement were part of the program. Other intentional actions taken to seek out and encourage feedback from different audiences included:

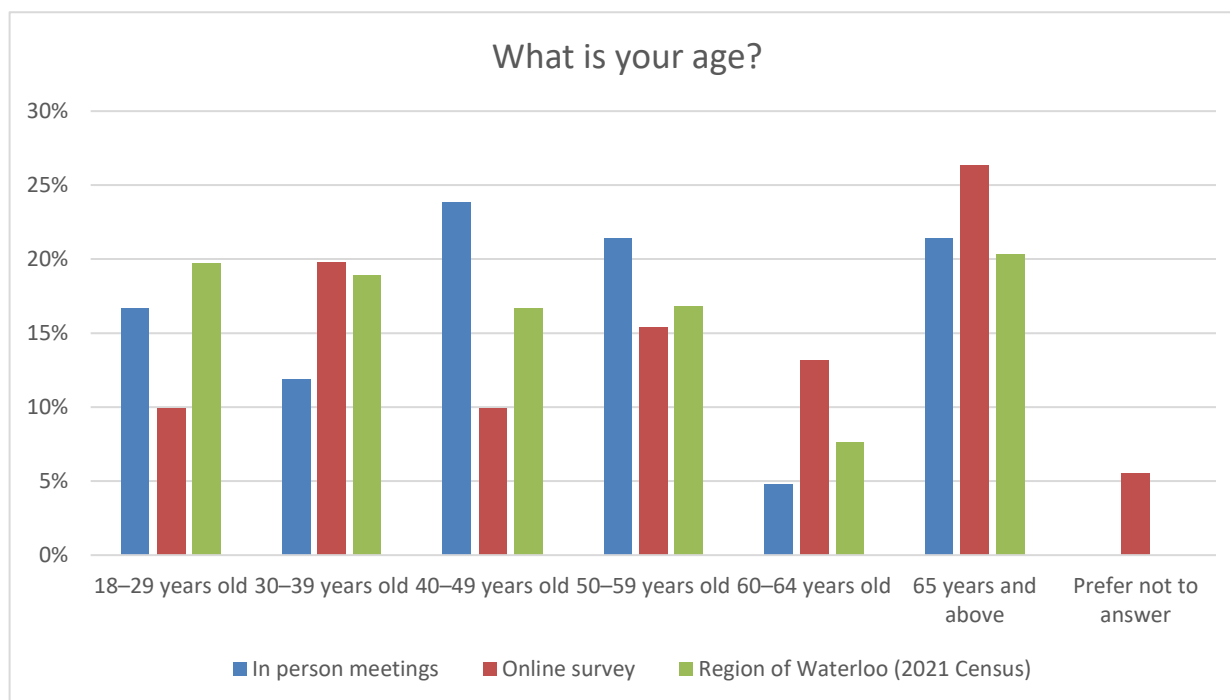
- Specific meetings with interest groups, including individuals with moderate incomes who might benefit from an inclusionary zoning program
- Invitations worded to provide context for the outreach and with an invitation to ask questions about the event from the organizers
- Direct invitations to participate to agencies and associations serving:
 - Students
 - Participants with accessibility needs
 - Age friendly city proponents
 - Indigenous community members
 - Newcomers and refugees
 - Multicultural groups
 - Renters

The project team also made sure to host meetings within an MTSA to reduce reliance on car travel and reduce the need to have home access to the internet.

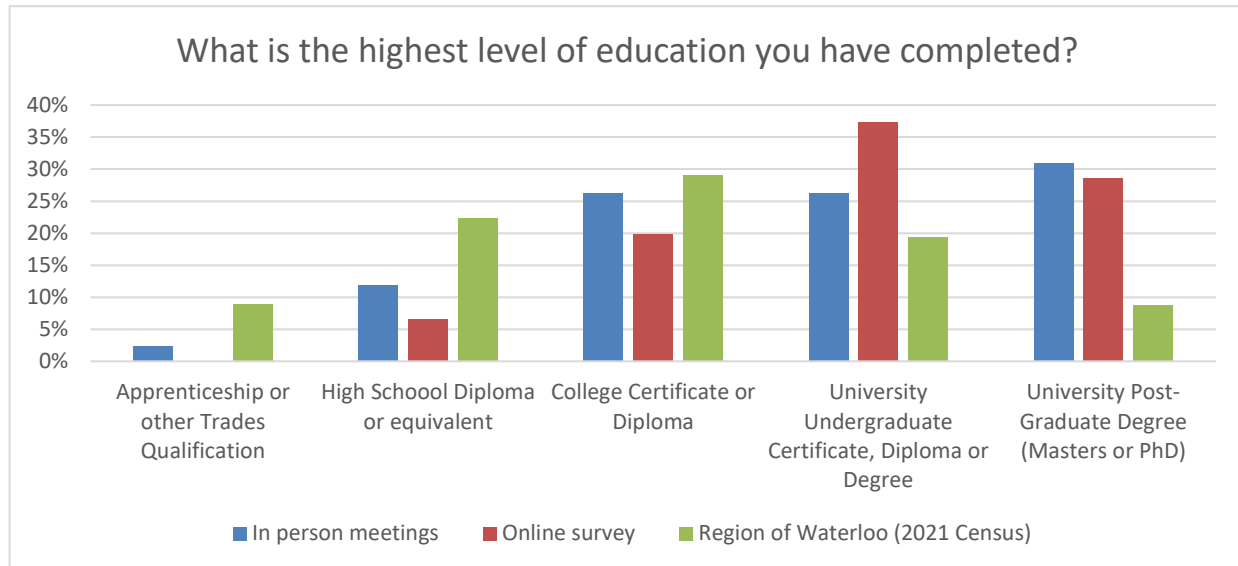
These efforts were made to support the goals of broad awareness and participation from a population reflective of the residents of the tri-cities. They were also taken out of an awareness that in general, organized civic associations and participants in public meetings tend to over-represent citizens with higher levels of education, more leisure time, higher incomes and with better access to technology. Participation is always voluntary and, as reflected in the gap between the number of respondents who indicated that they would participate (took actions to register or RSVP) and the lower number of attendees, municipal engagements compete for attention with the other activities, obligations and realities of citizen participation. Intentional outreach and deliberate care can yield benefits over the longer term as a message from the municipalities that all are welcome and different points of view are wanted.

The Inclusionary Zoning team also collected demographic information from respondents to the online survey as well as attendees at the December 2022 and January 2023 Meetings. Completion was not a requirement of participation. However, it did provide some data to measure against the goal of an inclusive engagement process. The collection of demographic information supports the goal of identifying which individuals and groups were represented through the engagement process thereby allowing an evaluation of methods and lessons learned for future engagement efforts by the municipalities in Waterloo Region. The charts below indicate self-declared responses from three data sets: participants at the public meetings in December 2022 and January, 2023, online survey respondents and 2021 Canada census data for the Region of Waterloo. Unfortunately, not all variables in the City of Kitchener’s standard demographic questionnaire used for this project are comparable to variables used in the census. Additional information collected in the participant surveys included: language, race/ethnicity, religion, gender, sexual orientation and disability but are not reported here.

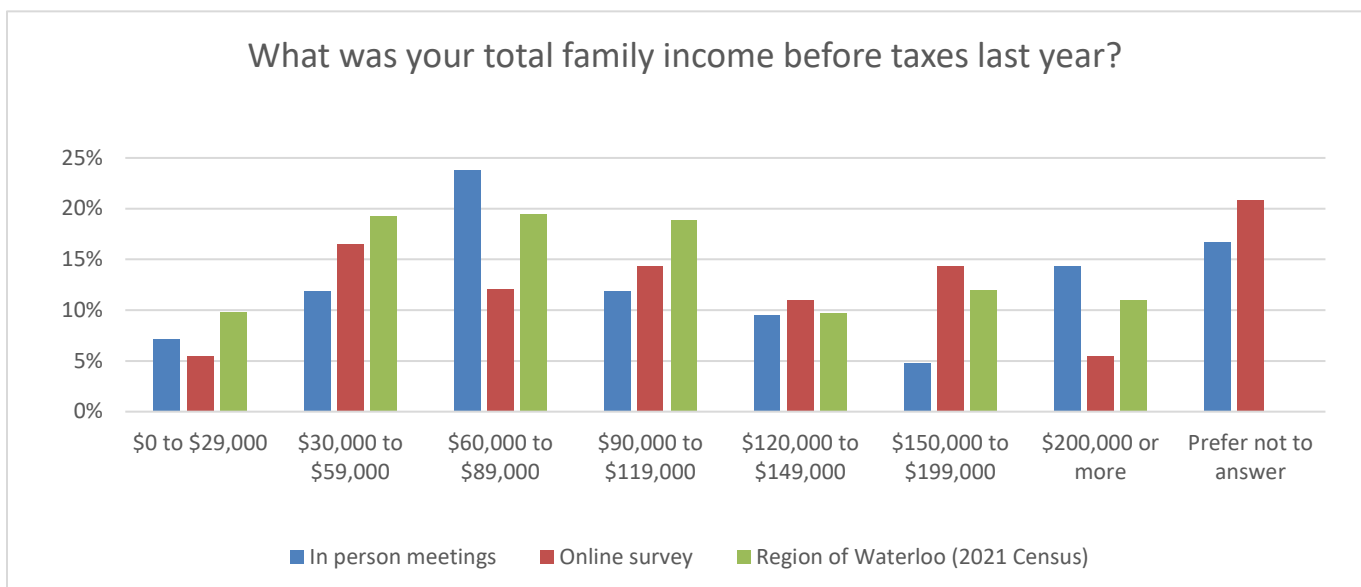
The age of participants in the engagement process indicates a lower participation rate in the online survey for people in the lowest age category and 40-49 year old category. An overrepresentation of responses from participants over aged 60 is indicated. Age distribution for the public meeting was underrepresented for 30-39 year olds and 60-64 year olds. As a whole, there was a general distribution of ages in participants.



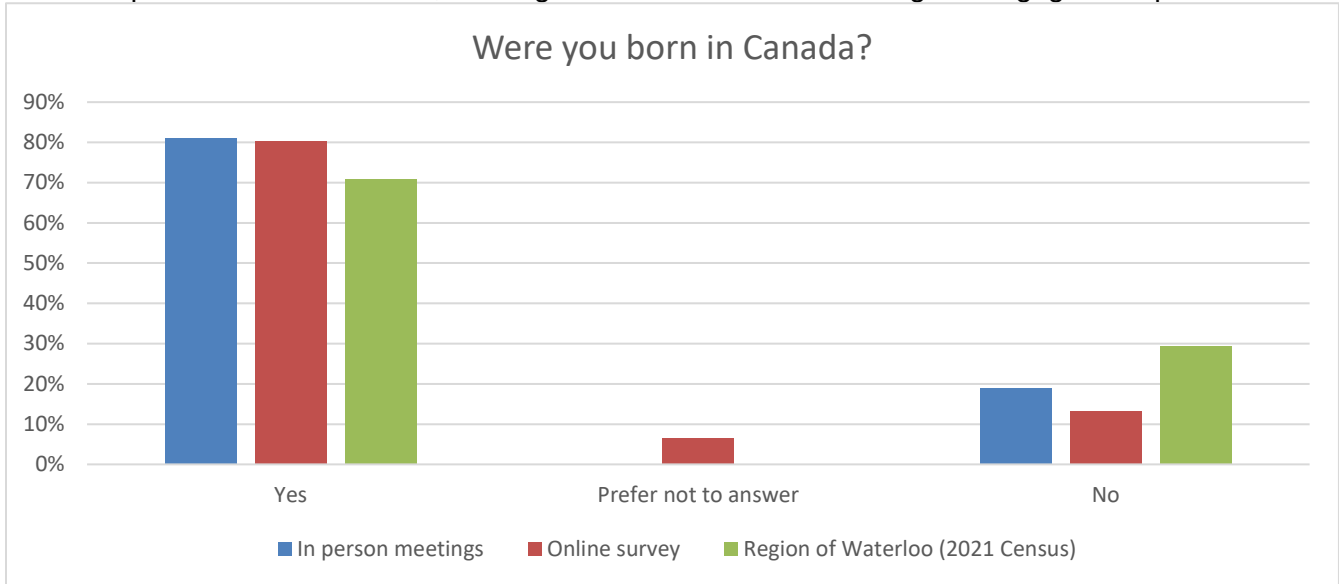
Despite deliberate efforts to facilitate participation from a reflection of the population of the tri-cities area, there was an over representation of residents with higher levels of education. Further attempts to rectify this could include a campaign to promote the videos to ensure broad awareness and help underrepresented communities better understand the relevance of IZ to their issues and concerns.



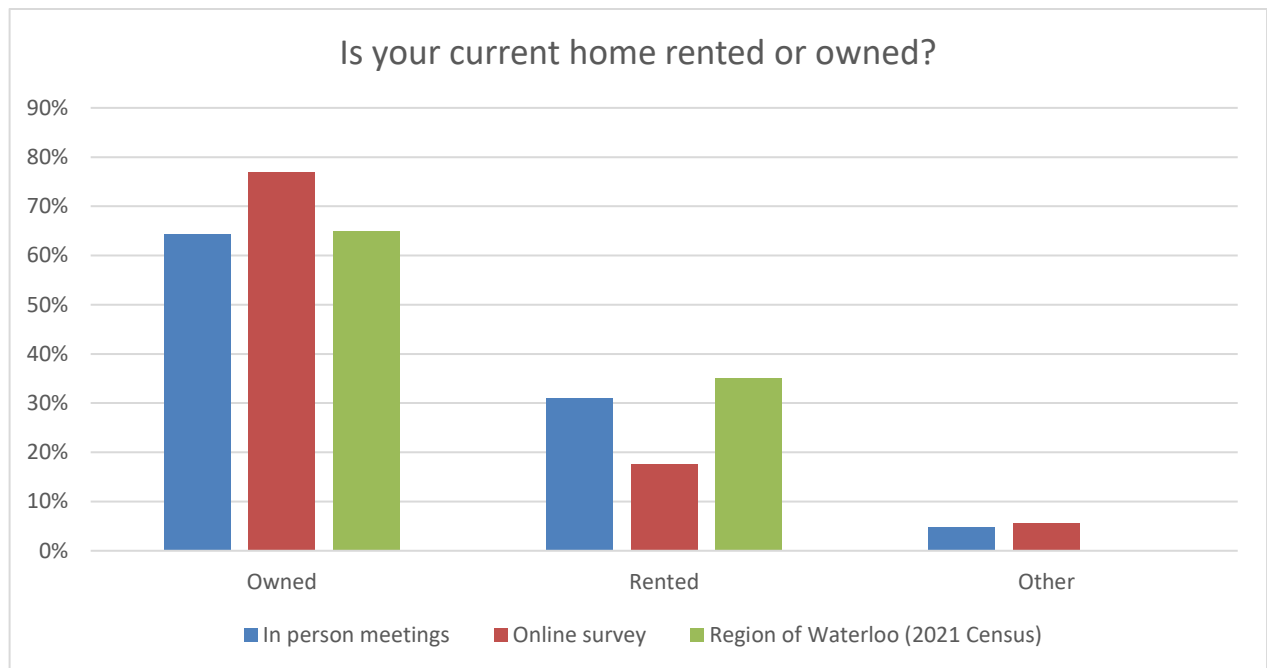
The feedback indicates an underrepresentation in online participation from those with household incomes of \$60-\$89,000. However, this cohort was well-represented at the public meetings. Specific effort was made during the outreach period ahead of the in-person events to identify interested civic groups who serve potential future beneficiaries of the IZ policy and encourage them to promote participation. In general, the income distribution of participants indicates fair participation in different categories. Moderate income households, who are likely beneficiaries of IZ, were well represented. This is a positive finding for the engagement. Incomes under \$60,000 were underrepresented across online and in person engagement.



As outlined above, an effort was made to create awareness of the policy and program development in newcomer communities in the region; despite these efforts, participation in both the online survey and the in-person meeting indicates low participation among first generation immigrants. Additional connections with agencies serving newcomer communities can be pursued to address this gap as the process moves forward, building on the outreach done during the engagement phase.



Affordable housing is needed in both ownership and rental tenures; however, renters were slightly under-represented in the engagement. Additional efforts to increase awareness for renters should continue to be made. The previously identified public advertising could be part of this effort.



What We Heard

The following section provides detailed summaries of the feedback received during each phase of engagement for the project. Feedback is summarized based on themes pulled from responses. The summaries are not intended as verbatim accounts but rather a synopsis of the major takeaways from the engagements.

EngageWR Digital Consultation Summary

Summary:

The project team collected public feedback through a virtual engagement platform. The platform was hosted through the Kitchener Engage website and linked from the engage pages of the other municipal partners. It collected feedback around the question, “What do you think about Inclusionary Zoning?”

The platform collected public feedback from March 24, 2020 to January 31, 2023 with the highest traffic to the site occurring in September 2020, coinciding with the Kitchener staff report to Council.

Objectives:

- Introduce the Inclusionary Zoning project and policy concepts
- Invite members of the public to connect with project team members
- Encourage participants to share their ideas around the development of the policy and comment on the ideas and comments of others

Participants:

Between March 2020-January 2023 period, 608 visitors reviewed the “Ideas” and “Guest Book” pages of the site. Here, a total of 131 contributors left comments, responses and guest book entries.

Key Themes:

The following is a summary of the main themes that emerged through an analysis of the ideas, comments and guest book entries received through the virtual engagement platform. The majority of ideas and responses received (over 90%) date from the early part of the project in 2020 and 2021. The comments reflect a reaction to the initiation of the project and a desire to understand the specifics of the project better.

1. The development community has a role in affordable housing.

Many commenters expressed their desire to have more strict requirements for developers (such as increasing the percentage of units that must be affordable and a call for those units to remain affordable permanently.)

An opinion was conveyed that the public paid for the development of the ION through taxes, and developers who benefit from the increased land value should be obligated to provide a public good.

Some participants expressed that putting excess pressure on developers regarding affordable housing could lead to development companies not investing in the region and cautioned not to lose sight of the goal to create the greatest number of units possible.

2. Taking steps to drive down cost pressures by encouraging development

Participants indicated that parking minimum requirements were a financial burden for developers and supported their elimination in order to support opportunities to build affordable housing.

Some participants expressed support for the concept that increasing the permitted density of developments can be a tool to accommodate more affordable units.

A number of commenters wished to refocus the conversation toward other planning priorities. Many noted the elimination of Exclusionary Zoning as a goal; these commenters called for the removal of single residential zoning and outlined that such a policy would positively impact regional housing supply and affordability.

Some participants commented that development in the region is booming, and intensification efforts within existing residential neighbourhoods should be prioritized, rather than a focus on units in higher built forms along the ION route.

3. IZ should advance city-building goals beyond affordability

Many participants expressed that an Inclusionary Zoning policy should include regulations around the size of affordable units. Affordable family sized units or units for individuals sharing larger units would provide opportunities for rent sharing making further affordability more likely.

Several participants called for new developments to be mixed-use to support walkability in the community. Non-profit agency tenancies, grocery stores and other community needs as well as ground floor retail were identified as preferences.

Some concern was expressed by participants about the focus of Inclusionary Zoning on providing housing affordability for moderate income households rather than low-income households with deep affordability needs.

Concern was expressed by some participants about whether the potential number of units that could be delivered by the program would be too small to have a meaningful impact on the shortage of affordable units.

4. Clarifying the meaning and intention of Inclusionary Zoning

Likely owing to the majority of the comments and feedback received through the virtual engagement platform being received during an early stage of the engagement, several participants expressed confusion about the level of affordability that could be offered through an Inclusionary Zoning program and the type of housing it offered within the wider affordable housing spectrum.

Many comments indicated an assumption that the affordable housing units provided through IZ would be deeply affordable subsidized housing units. Continued explanation of the concept in plain language as a tool for the provision of moderate level affordability is encouraged.

The video resources developed as part of the engagement can be used to further support clarification and education in this regard.

Inclusionary Zoning Beneficiary Group Workshop Engagement Summary

December 13, 2022

6:30-8:00 p.m. City of Kitchener Downtown Community Centre, 35B Weber St W

Summary:

Members of the project team hosted an in-person focus-group style discussion with individuals associated with groups that could benefit from an IZ policy. The session was held at a centrally located venue in Downtown Kitchener. Fifty-one invitations were issued by email on December 2, 2022 with 27 RSVPs received through a designated EventBrite page issued to invitees. Invitations were issued to a list of groups drawn from the Affordable Housing master contact list with a focus on groups whose clients/users could ultimately benefit from the policy. Care was taken to draw awareness to groups serving middle-income clients since any IZ program is anticipated to be of direct benefit to moderate income households. Groups who received the invitation were encouraged to share the invitation with their networks.

The meeting began with a presentation by Tim Donegani, Senior Planner- City of Kitchener who introduced the project and gave an overview of the Inclusionary Zoning project process to date. A video was shown that explained how housing has become less affordable in recent years and how IZ is one option to increase the amount of affordable housing. Following this, LURA facilitated two break-out group discussions with participants and members of the tri-cities project team that invited meeting participants to provide feedback and ask questions.

Project Team:

Tim Donegani
Senior Planner- City of Kitchener

J. Matthew Blevins
Senior Planner Reurbanization-City of Cambridge

Judy Maan Miedema
Principal Planner-Region of Waterloo

Michelle Lee
Senior Policy Planner -City of Waterloo

LURA

Liz McHardy, Partner

Franca Di Giovanni, Senior Engagement Specialist

Objectives:

The objectives of the meeting were to:

- Introduce the Inclusionary Zoning policy concept
- Reach community members through the process who will benefit from such a policy but who may not have awareness of efforts and dialogues established to date
- Promote awareness of the concept and the potential it has to provide new options for creating affordable housing for residents with moderate incomes
- Identify next steps

Participants:

There were 13 participants in the focus group style session.

Questions:

The discussion focused around thoroughly explaining the concept of inclusionary zoning and getting feedback on the specific themes and questions noted below.

- Seeking Affordable Housing: How many units, for how long and for what cost of housing?
- Affordable rental or affordable ownership: Should the cities target securing affordable rental units or ownership units or a mix?
- Ensuring a viable program: What are the trade-offs, such as heights and densities that are needed to encourage a viable program? Should the cities use financial and/or non- financial incentives to further advance affordability objectives?
- Location trade-offs discussion: Should developers be permitted to provide the affordable units in other buildings within the area?

Key Themes:

The main themes that emerged from discussions with stakeholders at the session included:

1. **A preference for larger units (2 or more bedrooms)**

Participants expressed a wide variety of opinions around the need for or uses of three-bedroom units. It was acknowledged that the cost of larger units in new multi-unit buildings is high, both for the builders, renters and buyers, compared to one- bedroom units. However, newcomers and post-secondary students with families coming to the tri-cities to study or work were cited as needing larger homes and therefore benefiting from larger affordable units.

Other participants from the real estate and supportive housing fields identified inconsistencies in the desirability of three-bedroom units citing that they are either highly coveted or languish on the market.

The concept of three-bedroom units as shared space for a larger number of people, but not necessarily from one family or household, was discussed. The question of whether offering larger unit sizes through the program could support the greatest number of people was posed.

In general participants agreed that while it was difficult to identify the ideal unit size for the program, more than one bedroom was the preferred unit size.

2. Ownership or rental

There was a general consensus on the need to prioritize rental units as the form of tenure supplied through an Inclusionary Zoning program.

3. Incentives and trade-offs

Participants in this group did not express a great amount of concern for the financial impact of IZ requirements on new developments. A general feeling that sufficient profit margins could still be attained was expressed.

There was no specific consensus reached on the trade-offs to be provided. Participants expressed a variety of opinions around the concept of forgiving development charges. Flexibility around development charges was supported if the charges stood in the way of getting something built. Some support for eliminating parking minimums and being more flexible in terms of height was expressed, citing the example that “a 24 storey building versus the 27 storey building doesn't make a difference.”

One participant expressed a strong desire not to waive the fees for inclusionary zoning and instead supported redirecting fees toward other housing programs. Another cited empty units in downtown Kitchener as evidence that “it's not true that every one bedroom unit is needed”. While another conveyed that “being flexible might dilute what we get”. Although the intention was to seek feedback on what cost of housing should be targeted through the policy, no strong discussion and no clear preference was articulated in this regard.

Questions of Clarification

Question: Do we have good numbers on how many units are actually required at each price point?

Answer: Many low and moderate income households are experiencing housing affordability issues. The need is greatest at the lowest incomes. The information we do have is provided in the Housing Data and Needs assessments completed or being completed by each area municipality.

Question: How long will it take to get IZ in place?

Answer: The policy is expected to be in place by 2023 with implementation in 2024.

Inclusionary Zoning Consultation Online Survey Summary

Summary:

An online survey was added to the IZ Engage page on December 19, 2022. The survey remained online from December 19, 2022-January 31, 2023.

Objective:

The survey focused on collecting feedback about preferences in response to questions about:

- Overall support for an IZ policy
- Preferences for on-site requirements versus flexibility for off-site units
- Opinions about the trade-offs around financial incentives
- Feedback on additional flexibility in height and density allowances
- Priorities in terms of depth of affordability, length of affordability and number of units created

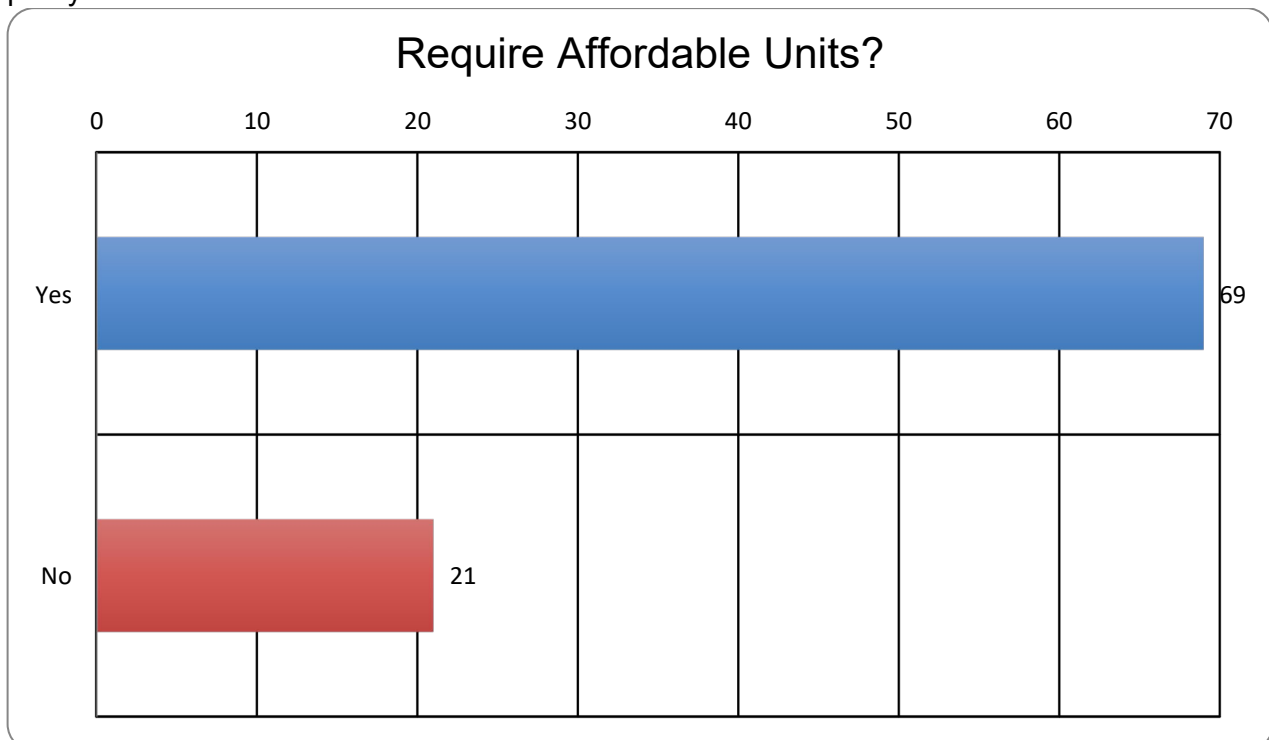
Participants:

Over the timeline previously indicated, the survey had 175 visitors to the page with 89 contributors completing the survey.

Survey Questions and Responses:

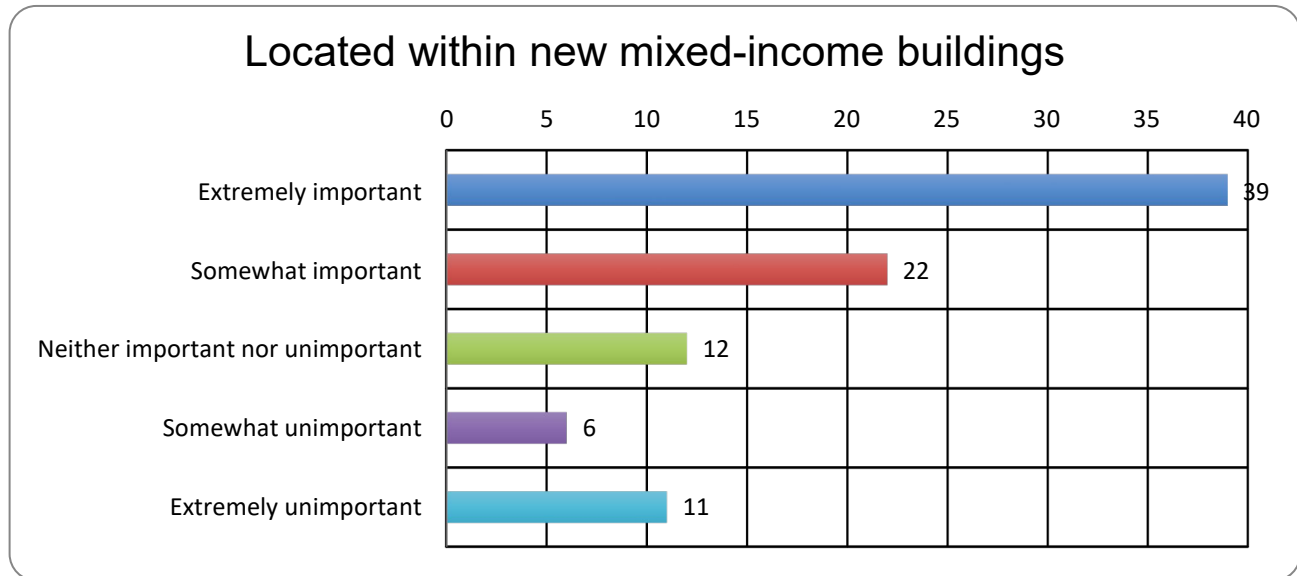
1. **Do you think the cities of Kitchener, Waterloo and Cambridge should require private developers to include some affordable housing within new, multi-unit housing developments near ION stops?**

Survey respondents indicated a high level of support for the development and implementation of the policy.



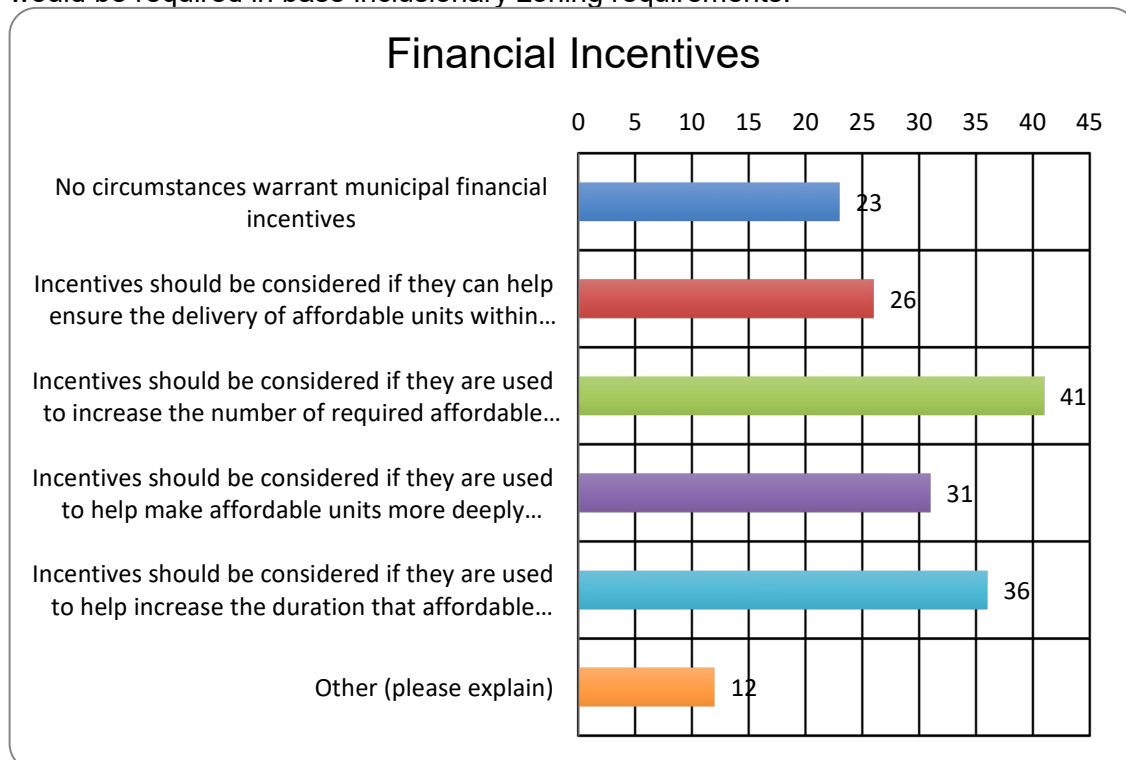
2. How important is it that affordable housing units are located only within a mixed income building rather than in a building that contains all affordable units?

Survey respondents expressed a strong preference for the affordable housing units delivered through the program to be located within the new mixed income building(s.)



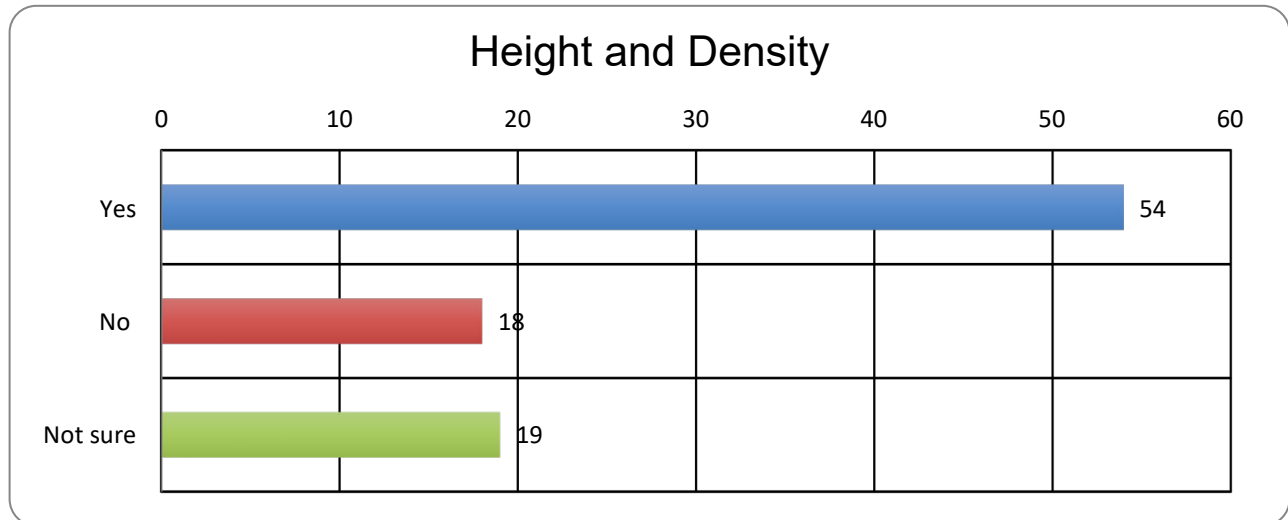
3. Under what circumstances should financial incentives (such as waiving fees or charges) be considered as a way to support an inclusionary zoning program?

Survey respondents indicated a high degree of support for the allowance of financial incentives to off-set development costs where affordable units were being provided above and beyond what would be required in base inclusionary zoning requirements.



4. Recognizing that enabling developers to build more units on the same site could help them offset the reduced revenue they receive for the affordable units- do you think the cities should allow more height and density if it means more affordable units can be provided?

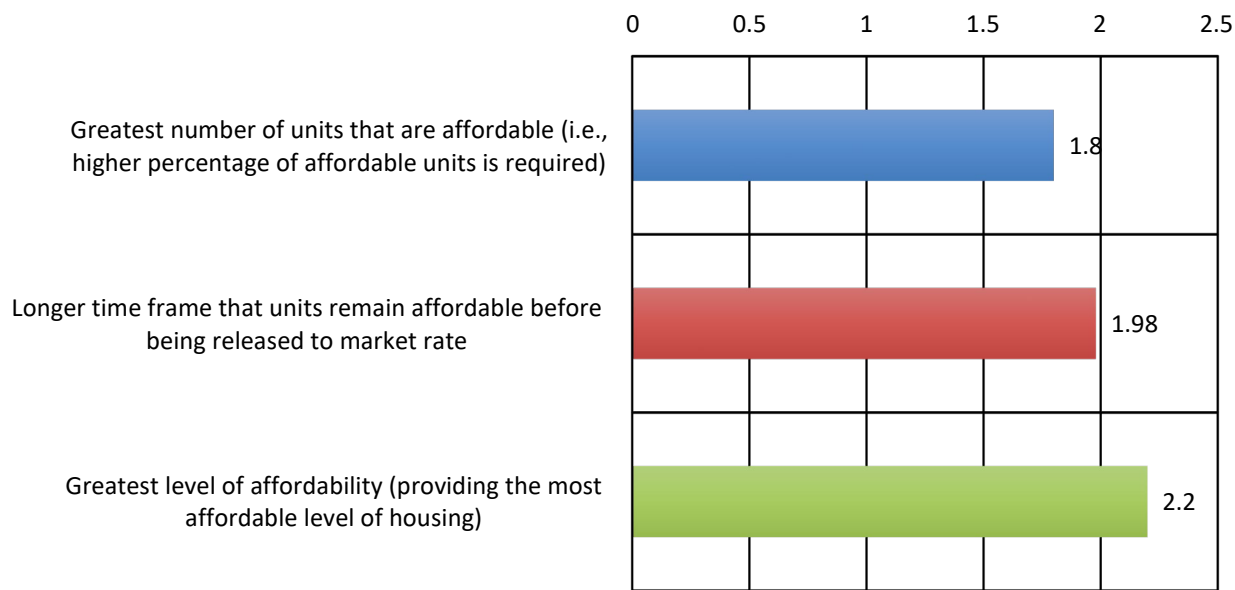
Despite indicating a strong desire for flexibility regarding financial off-sets to support an IZ program, survey respondents were not united in stating their support for additional height and density allowances.



5. What is the most important to you when considering the various policy requirements and tradeoffs? Rank the following from most important to least important. (Where 1 is most important, 3 is least important)

Survey results indicated a slight preference for providing the greatest level of affordability in new units. However, the margin between depth of affordability, length of affordability and number of affordable units was less than half a percent. Respondents are seeking a balanced approach to these three policy objectives.

Requirements and Trade-offs



Affordability Stories:

The survey also included an open text component for participants to write four or five sentences outlining their current experience, or that of someone close to them, affected by housing affordability in Waterloo Region.

The following is a summary of the key themes emerging from the open text section as well as some direct quotes.

1. High proportion of income being spent on rent

Contributors noted the challenges faced by their family members, and reflected on what their own circumstances would be if faced with current housing costs.

Some expressed concern for what the near future would bring should there be a change in circumstances:

I work a full time job and two part time jobs...my mother shares our rental to help offset high prices...we can still barely afford the rent we pay

My partner and I recently moved to Kitchener and were unable to find appropriate housing within our financial means without relying on help from our families. Because we don't drive, it was vital for us to live near an ION station and within walking distance of our daily necessities (grocery, pharmacy, etc). Fortunately, we were able to find a place near downtown that met our needs, but the majority of our combined income is going to housing costs now.

2. High levels of regional demand

A few contributors self-identified as employers or landowners and highlighted the demand for housing and the lack of affordable supply.

I am a landlord and even with recent turnovers in my units (wherein the rent was increased) I was overwhelmed with demand. I feel for the many who are seeking affordable housing.

I'm struggling to hire professional employees because they can't afford to move to the region.

3. Housing costs limiting mobility

Several contributors outlined that, despite a desire for new housing, they felt stuck due to the fear of losing an existing affordable arrangement.

For some this meant the prolonged presence of adult children at home or the need to share housing with multiple generations of the family.

Our 3 generation family is underhoused in a reasonably priced 2 bedroom...to move...will not be possible for us.

My daughter is a university graduate with a full time job, unable to afford moving out on her own.

My daughter is currently living in off campus housing that was opened up for rent when COVID shut down the Universities. She continues to lease (one room with bathroom) but is not a student.

Additional Comments for the Project Team

Respondents were also given the opportunity to leave text comments for the project team. Below is a short summary of the main themes of comments.

1. Inclusionary Zoning is part of the solution, but other programs are also needed

Several participants noted support for the policy but expressed concern about the number of units that could be delivered through the program. Participants offered their support for other affordable housing solutions in addition to IZ. A general sentiment was expressed that delivering the maximum number of units was the goal.

Inclusionary zoning is a very much imperfect solution to this problem...However, it is the best tool we have at the moment within the framework provided by the province, and should be used.

2. IZ holds strong possibilities for partnership opportunities

One respondent expressed enthusiasm for the opportunity to develop new partnerships with not-for-profits to deliver the maximum number of units.

If two projects like this pooled their off-site resources and provided them to a non-profit, the \$5 million in revenue could also be leveraged with funds from CMHC and/or the Region, and could reasonably be expected to bring 40 to 50 new units.

Development Industry Meeting Summary

Thursday January 19, 2023 10-11:30 Via Zoom

Summary:

Members of the project team hosted a virtual meeting with individuals in the development industry. The virtual focus group session was held using the Zoom meeting platform and forty-seven invitations were issued by email Friday January 6, 2023. The list was drawn from the tri-cities Affordable Housing Interested Parties Master List that included all known development industry stakeholders operating within the tri-city area.

The meeting began with a presentation by Michelle Lee, Senior Policy Planner -City of Waterloo. It consisted of an overview of the Inclusionary Zoning work carried out by the cities to date, including some detail from the NBLC study of 2020 and an acknowledgement that this work is being updated. Following this, LURA facilitated a group discussion that invited meeting participants to provide feedback and ask questions. The presentation was circulated to participants after the meeting.

Project Team:

Tim Donegani
Senior Planner- City of Kitchener

J. Matthew Blevins
Senior Planner Reurbanization-City of Cambridge

Judy Maan Miedema
Principal Planner-Region of Waterloo

Michelle Lee
Senior Policy Planner -City of Waterloo

Franca Di Giovanni, Senior Engagement Specialist

Sesvin Josarosa, Community Engagement Specialist

Objectives:

The objectives of the session were to:

Re-introduce the Inclusionary Zoning project to the development community

Identify the current direction of policy guidelines

Solicit feedback from the development community around the following questions:

- What is an appropriate initial set aside rate for strong markets? (between 1 and 5%)
- What would be an appropriate unit number/building size to exempt from IZ (with a view to removing disincentives for missing middle)?
- Do you have any preferences for a mandatory vs voluntary vs hybrid program?
- Do you want to share any thoughts on the possibility of offsite units?

Participa

Participants

There were 33 participants in attendance, representing approximately 25 development firms.

Key Themes:

The discussions with stakeholders identified concerns about impacts on project feasibility as well as impacts on the price of market rate units. These concerns were captured under the following themes.

1. Importance of the average market rent definition

Several participants remarked on the discrepancy between the average market rent figures seen by looking at rental listings in the tri-cities and the CMHC definition of average market rent for the area. The fact that the CMHC Average market rent definition was so much lower was cited as a significant discrepancy leading to a much too low definition of affordable from a developer point of view.

The project team identified its use of the CMHC-posted average market rent as required by the Ministry of Municipal Affairs and Housing, noting that these numbers take into consideration the global supply. This averaging results in a number that looks lower than typical rents for new rental units.

Several participants offered suggestions for how to address the gap or shortfall between these figures. Suggestions included capital investments and funding from senior levels of government, and tax levies specifically geared toward Affordable Housing.

Several participants noted a shared responsibility between developers, municipalities, and taxpayers.

The project team cited that the 2020 NBLC study used a model of residual land value and also outlined that the Region has invested a significant amount of tax dollars into developing the LRT. This in turn has had the effect of pushing up land values. The idea of the IZ policy is to capture some of that increased land value and redirect it toward affordable units. Local, regional, provincial and federal governments investing capital for affordable housing will be part of the solution but the development industry and existing landowners will also need to be part of the solution.

The project team acknowledged that if there is too much burden on developers, the viability of certain projects will be at risk. That is why the tri-cities have done the updated financial impact analysis. Parkland dedication at the municipal level and Development Charge exemptions at the municipal and regional levels are now mandatory. Reductions in parking requirements were identified as a helpful incentive for affordable units and could also be considered a form of subsidy. In response to suggestions that the cost of affordable housing should be borne by the whole of society through a tax levy, it was noted that the Region of Waterloo currently has a 1.4% tax levy specifically earmarked for Affordable Housing. One participant noted that the question of a portable market rent definition is critical because banks are not going to support financing for projects without CMHC involvement.

2. Limitations of IZ as a policy to address affordability

Concern was expressed about meeting the targets for affordable housing development within Waterloo Region during a period of uncertainty and high costs for the development industry. With immigration and local population

increases expected, a participant issued a caution to not lean too heavily on Inclusionary Zoning for the delivery of affordable units.

The project team indicated an awareness that if market economics don't support new builds the delivery of both market and affordable units will certainly be affected. The team acknowledged that it might be necessary at times to adjust the parameters to reflect evolving market conditions and move between different policy tools.

3. Rent to Own and fractional ownership programs

A few participants wondered where rent-to-own or other programs that fall in between rental and ownership fit into the equation. It was expressed that CMHC is actively encouraging rent-to-own; however, Inclusionary Zoning appears to recognize only rental tenancies or ownership and nothing in between. Other ownership models such as fractional ownership should be considered.

The project team expressed a position that this is something that warrants further conversation in order to better understand how such programs could fit into the IZ policy.

4. Purpose-built rental

One purpose-built rental developer expressed a general opposition to Inclusionary Zoning as a concept to address affordability because it increases rents and prices of market units. It was cited that CMHC financing with a 10 year horizon as opposed to the 25 year affordability horizon for IZ units leads to an inconsistency between financing and the horizon of the IZ financial model. Differences in the quality of finishes as well as maintenance and restoration costs for the units were cited as additional financial concerns.

Tri-city project staff stated that the financial modeling that had been carried out did identify that purpose-built rental is financially more challenging to achieve than condo development. In recognition of the different site economics, IZ policy in Toronto has identified different rules for purpose-built rentals and condos. The possibility of lower Inclusionary Zoning requirements for purpose-built rentals is being considered. The alignment with CMHC financing was identified as a situation that would have to be considered.

5. Challenges around the administration of affordable housing units

Several participants discussed administration of the units. Citing the usual process of closing a condominium development company down at the close of the build-out, participants identified challenges related to any continued responsibility of condominium developers to monitor, administer, and maintain affordable units within the buildings.

It was suggested that the administration and oversight of the affordable units should be the purview of the Region and its not-for-profit partners.

Tri-city project staff expressed the importance of working out administration details early on in the IZ policy development process.

With regards to providing units off site, developers expressed that while on the one hand integration of affordable units through the community is beneficial, from a practical point of view it would be easier to create specific buildings where the units could be centrally administered.

One participant suggested that in developments that happen over a longer period of time, consideration could be given to phasing. At a certain point a critical mass would develop and a purpose-built “missing middle” sized affordable housing building could fulfill the IZ requirement.

A preference for flexibility in the policy to allow off-site provision of units was a common theme. Participants saw value in encouraging the Provincial government to allow IZ in areas other than MTSA's.

6. The need for effective and innovative partnerships

One nonprofit developer participant expressed an openness to new opportunities for partnership with the for-profit development community in order to meet IZ requirements. Developers expressed the desire for flexibility around the development of affordable units outside of the MTSA's and flexible partnerships to maximize affordable housing .

Partnering between different developers in a specific area was also cited as an easier way to administer and build the units. If a purpose-built affordable rental building was constructed in partnership with a not-for-profit provider, the affordability factor could be retained forever.

Questions of Clarification

The following are questions of clarification that the project partners provided responses to during the meeting.

Q1: Will the Inclusionary Zoning policy be implemented at the regional or municipal level?

A: Inclusionary Zoning will be a municipal by-law.

Q2: According to Bill 23, the Regional Official Plan has to get downloaded to the various municipalities- including the defined MTSA areas. Wouldn't that happen first before this process would be implemented?

A: Yes, we are planning any inclusionary zoning policy framework at the same time as updates to various Official Plans that incorporate the new MTSA requirements.

Q3: What is the proposed parking ratio for the units?

A: Staff are contemplating a variety of options to offset the impact of inclusionary zoning, and one of these options could be a reduced parking ratio or the elimination of a parking requirement for IZ units. Our hope is to bring forward a parking ratio of 0 although that must be vetted and approved through the various municipalities. This recognizes the high cost of creating parking structures.

Q4: Can we get a copy of the NBLC modeling and the presentation from today?

A: The presentation from today will be shared. The updated NBLC model will be shared once it has been completed.

Q5: Everyone is waiting for the specific regulations on Affordable Housing within the new Bill 23 which will have an impact on this program. Can the cities arrange an updated meeting of this sort when all of the regulations have been identified?

A: Further points of contact can be arranged.

Q6: With regards to landholdings held by the municipality and the region, will they be rezoning their own land for the purpose of inclusionary zoning?

A: The Region has an existing program for using Regionally-owned lands for affordable housing. The City of Waterloo has done some initial work looking at its land holdings to meet various

community objectives including how best to use surplus lands for affordable housing. The Region and the tri-cities are likely to want to maximize their land offerings for more deeply affordable units. Surplus public lands that are redeveloped will need to meet certain requirements.

Policy Questions

A question was also posed by the facilitator and project team within the chat box of the meeting and elaborated on by the senior planner from the City of Waterloo. One participant provided a specific response.

Q: Do you have any preferences for a mandatory/voluntary/hybrid program?

Voluntary means if you are asking for additional height and density, IZ requirements would set in.

The hybrid approach would be a sliding scale, the higher the height and density, the higher the set aside rate.

A: There is an understanding that there is a gap between what zoning currently allows and what the industry thinks should be allowed in terms of density. The request for increased density is practically a given on any site that will be redeveloped. Figuring out these numbers is likely to be complicated. Other than increased expenses, the development industry does not like uncertainty and calculating the requirements is likely to be very difficult. A mandatory system could be preferred to voluntary or sliding scale type of approach from a complexity and certainty perspective.



Inclusionary Zoning Public Meeting Engagement Summary

Monday January 23, 6:30-8pm

Waterloo Memorial Recreation Complex, 101 Father David Bauer Drive

Summary:

Members of the project team hosted an in-person public meeting at a community centre in Waterloo, accessible to residents from the region and in a different municipality than the December, 2022 meeting in Kitchener. Invitations were issued by email to both subscribers of the Inclusionary Zoning Engage page, and a contact list assembled over time by the project team. The event was promoted on the Engage project page and also listed as a public event on EventBrite.

The meeting began with a presentation by Michelle Lee, Senior Policy Planner -City of Waterloo who gave an overview of Inclusionary Zoning and the work done by the project team to date. A short question and answer session with attendees was arranged followed by small group question answer sessions directly with project team members. Participants could also leave comments and feedback on posterboards affixed to the walls. Stickie dots and notes were distributed.

The presentation from the meeting was subsequently posted on the Engage page.

Project Team:

Tim Donegani
Senior Planner- City of Kitchener

J. Matthew Blevins
Senior Planner Reurbanization-City of Cambridge

Judy Maan Miedema
Principal Planner-Region of Waterloo

Michelle Lee
Senior Policy Planner -City of Waterloo

LURA

Franca Di Giovanni, Senior Engagement Specialist

Sayan Sivanesan, Community Engagement Specialist

Objectives:

The objectives of the Public Meeting were to:

- Share the latest information on the status of the Inclusionary Zoning policy development project
- Present an overview of the benefits of the project
- Create opportunity for reaction and discussion
- Seek feedback on priorities for depth of affordability, duration of affordability and set-aside rates
- Explain the concept of trade-offs in new builds

Participants:

Approximately fifty (50) residents attended the session with forty-two (42) signing in and leaving demographic information.

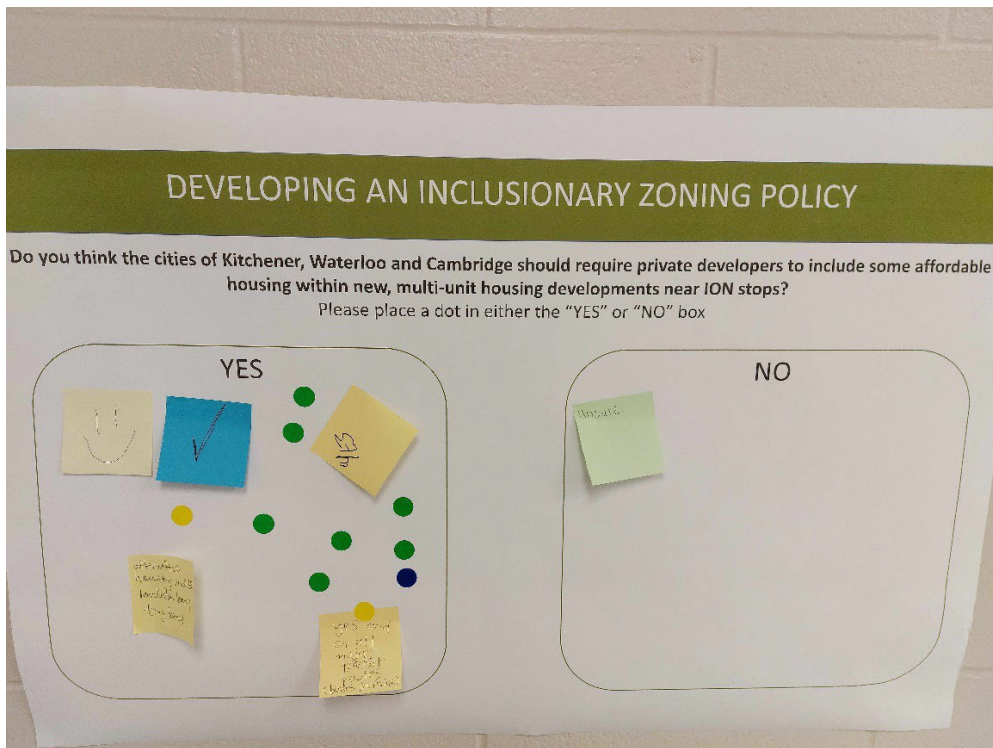
Dotmocracy responses

The following is a summary of the responses collected on the posterboards displayed in the two adjacent rooms. Project team and engagement team members circulated through the rooms to ensure that participants understood the questions and had the supplies necessary to participate.

1. Do you think the Cities of Kitchener, Waterloo and Cambridge should require private developers to include some affordable housing within new, multi-unit housing developments near ION stations?

Respondents at the public meeting indicated strong support for the policy concept.

Yes	No/Unsure
12	1



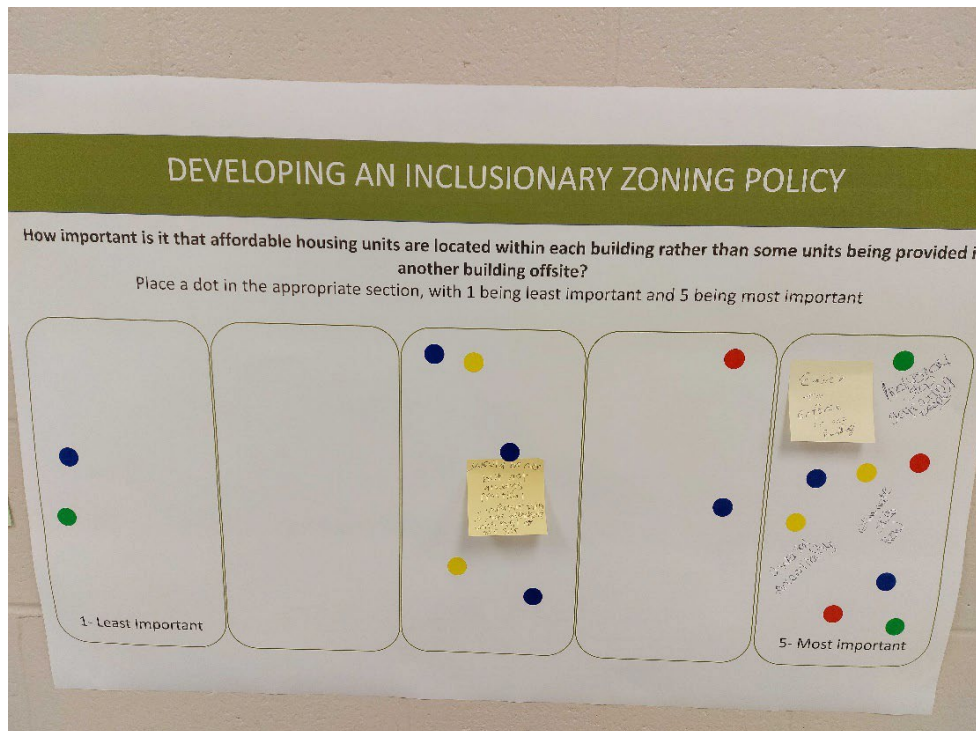
Notable Comments:

One participant encouraged the definition of major transit station areas to include bus routes.

2. How important is it that affordable housing units are located only within a mixed income building rather than in a building that contains all affordable units?

In response to this question, the single option with the highest number of responses was the preference for IZ units to be incorporated into the new build.

Extremely unimportant	2
Unimportant	0
Neither important nor unimportant	5
Somewhat important	2
Extremely important	9



3. Do you think the cities should allow more height and density on a site if it means more affordable units can be provided?

A strong consensus response to this question indicated comfort with flexibility in height and density allowances in order to increase the number of units provided.

Yes	18
Other	1
No	0

DEVELOPING AN INCLUSIONARY ZONING POLICY

Under what circumstances should financial incentives (such as waiving fees or charges for new developments) be considered as a way to support an inclusionary zoning program?
Place dots in the spaces you agree with

No Circumstances
Don't eliminate Parkland fees for any reason.

If they can help ensure the delivery affordable units in weak markets

If they are used to increase the number of affordable units

If they are used to help make affordable units more deeply affordable

If they are used to help increase the duration that affordable units remain affordable

Bill is already providing incentives through waived fees to help private use

Notable Comments:

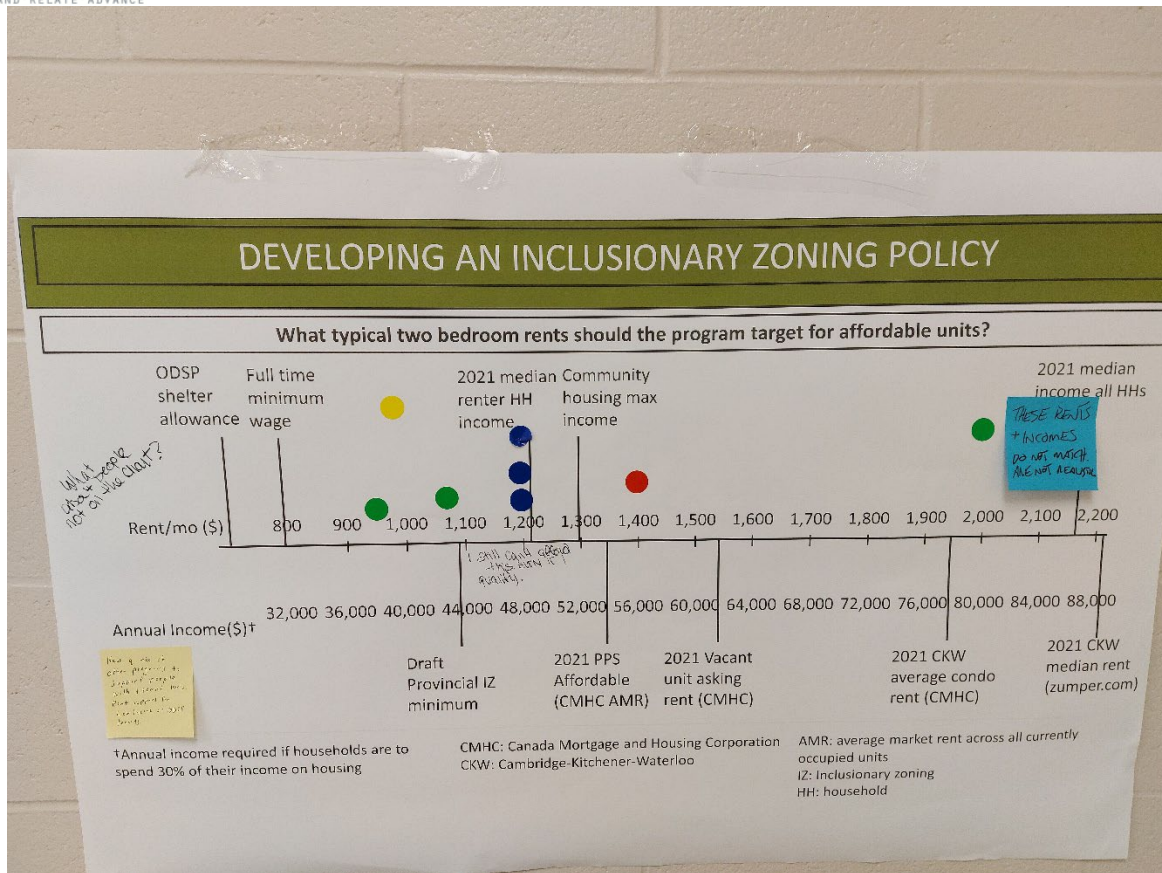
One respondent expressed that new provincial regulations provide enough financial incentives through waived fees and that additional incentives are not required.

One participant identified parkland fees as requiring safeguarding against incentive trade-offs.

5. Which typical two bedroom rents should the program target for affordable units?

A lower number of respondents supplied a response to this question, with a mild preference for supporting units in the \$1001-\$1200/month rental range and incomes in the \$44-\$48,000 range. The lower number of responses indicates a lack of consensus on an appropriate rent rate at which to focus the program.

\$900-\$1000	2
\$1001-\$1200	4
\$1201-\$1400	1
\$2000-\$2100	1



Notable Comments:

A participant identified that the rents and incomes indicated on the chart did not appear to match up to existing market and income ranges.

6. When considering the balance needed to ensure the project remains viable for the builder, which consideration is most important to you?

The vast majority of responses to this question fell on the side of the pyramid listing delivery of the greatest number of units and the longest period of affordability as the most important considerations. The single most important consideration was the number of affordable units.

Greatest number of units that are affordable	7
Combination number-period affordable	11
Units remain affordable for longest period possible	3
Combination period affordable-depth affordable	0
Most affordable versus market rent	0
Combination number-depth affordability	2
Equal Importance	1

DEVELOPING AN INCLUSIONARY ZONING POLICY

Inclusionary zoning programs set out a range of requirements, including: the number of units identified as affordable, how long units are required to be affordable and how affordable the units are versus market rent.

Each requirement has a financial impact on the project.

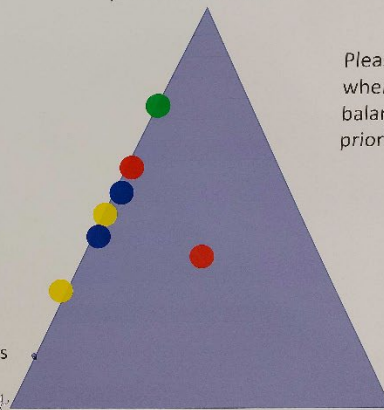
When considering the balance needed to ensure the project remains viable for the builder, which consideration is most important to you?

Units remain affordable for the longest period possible
(Maximum 25 years)

Please place a dot showing where you think we should balance the competing priorities.

Greatest number of units that are affordable
(Maximum 5%)

Most affordable versus market rent
(Minimum 80% market rent)



DEVELOPING AN INCLUSIONARY ZONING POLICY

Inclusionary zoning programs set out a range of requirements, including: the number of units identified as affordable, how long units are required to be affordable and how affordable the units are versus market rent.

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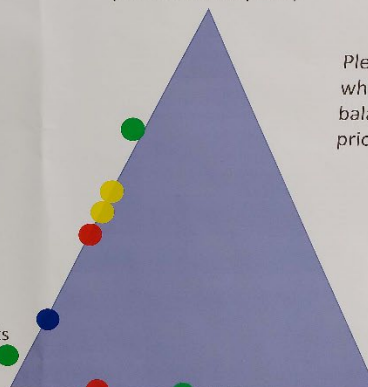
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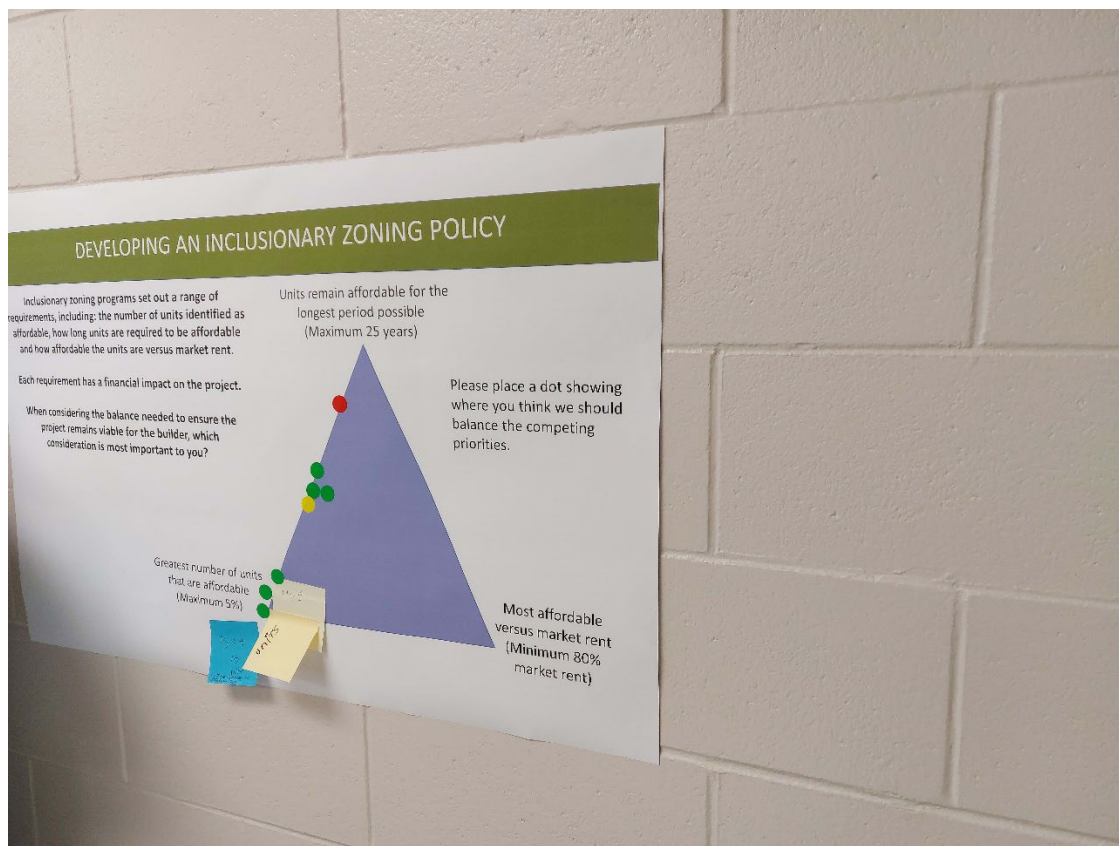
Units remain affordable for the longest period possible
(Maximum 25 years)

Please place a dot showing where you think we should balance the competing priorities.

Greatest number of units that are affordable
(Maximum 5%)

Most affordable versus market rent
(Minimum 80% market rent)





Notable Comments:

Multiple respondents encouraged the municipalities to advocate for the 5%+ set-aside rate as a minimum,

Questions of Clarification

The following is a synopsis of the questions and responses given during the Q and A portion of the meeting . It is not intended as a verbatim record but to capture the main themes and responses given.

Q: It's very disappointing that Bill-23 changed the definition for affordability. Would like to see the region push-back more. Would like to see a duration increase in the future – start with 25 years for now but increase it in the future. There is still a significant percentage of people that can't afford 80% of market rate.

A: The tri-cities have individually submitted comments to the Province. We do have the opportunity to review in 2 years and see if the Province can give greater flexibility to municipalities.

Q: Targeting middle-income earners does not address the needs of low-income residents. What is being done for those with low-income?

A: Inclusionary Zoning is only one approach of many that the cities have implemented or are considering with regards to affordable housing. Inclusionary Zoning would help out those with moderate incomes, which would help free up more deeply affordable units to those who need them – the goal is to move people up the spectrum.

Q: How does this program work for rent control?

A: Affordable units would be governed by a legal agreement that will include additional requirements beyond the Residential Tenancies Act's rent-controls.

Q: What protections are in place to protect affordability for the duration of the tenure and ensure that units are designed equitably?

A: During the implementation phase the program will develop agreements and parameters for building design standards.

Q: How does off-site unit provision work – is it possible for all affordable units of a development to be in one building?

A: An Inclusionary Zoning program would set out rules and conditions for the provision of off-site units. This means that the program could enable units to be provided within a single building.

Q: How do unhoused people living in encampments fit within the concept of affordable housing?

A: The Region receives funding from the Federal Government specifically geared towards addressing the housing needs of the unhoused. Inclusionary Zoning is one tool to provide a level of affordability and it does not replace the need to also provide deeply affordable housing. We are still working to address deeply affordable housing needs.

Conclusion and Next Steps

The engagement identified overall support from engaged citizens within the municipalities of Waterloo Region for the implementation of an Inclusionary Zoning Policy. Participants expressed support for flexibility within the policy as long as the flexibility did not result in a ‘watering down’ of the standards that would affect the quality of the future affordable homes.

Moving forward, additional educational opportunities should be considered to continue to help members of the public distinguish between Inclusionary Zoning affordable units operating with no on-going subsidy, as opposed to social housing programs geared toward lower income earners. The desire to see the IZ tool complemented by other policies geared toward the creation of many more deeply affordable units should be kept in mind as the cities continue to advance, or begin to develop, their Affordable Housing Strategies.

Participants in the engagement also sought reassurance that additional planning by-laws changes, such as the elimination of parking minimums and continued efforts to implement upzoning, would continue. Therefore, as IZ is implemented in MTSAs, care should be taken to broadly identify and engage on other intensification policies and plans. The engagement feedback expressed a position that affordability concerns in Waterloo Region were best addressed by maximizing the use of all tools available for supporting the supply of additional housing stock in a variety of built forms. A base of support for growth in the Waterloo Region is evident.

A summary of engagement participation indicates that the efforts made during the engagement phase to seek out participation and input from the newcomer community, renters, diverse perspectives and a spectrum of ages should continue. Additional feedback from these segments of the population can provide additional insight that could benefit the end users of the policy.

The development community indicated support for playing a part in the creation of affordable housing in the Region while emphasizing the primacy of partnerships. Concern was expressed about being able to deliver the units without adversely affecting typical project viability with resulting reduction in new supply. A preference for allowance of off-site purpose-built residences was expressed by this group. Joint advocacy with the province to expand the allowable areas for Inclusionary Zoning can be considered. Future developer focused meetings should be convened when specific details emerging from Bill 23 are available and when the specifics of the IZ policy are determined.

Following this phase of the project, the tri-cities intend to draft a Discussion Paper for their respective City Councils expected in Spring. Following this, the policy regulations could be developed for implementation in 2024.

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 2023 06 26 - IPPW2023-028 - Inclusionary Zoning Discussion Paper_FINAL.pdf

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General	Specific	Audit	Categories	Classifications	File Properties	Ratings	Referer
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1 Approval of Reports to Council	2 Financial Review	Civic Address (Non-street file)	Common 	
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Author: 

Author - Date signed:  [Clear](#)

Approval - Director: 

Approval Date - Director:  [Clear](#)

Approval - Commissioner: 

Approval Date - Commissioner:  [Clear](#)

Approval - Finance:

Approval Date -Finance:  [Clear](#)

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