

Inclusionary Zoning

Stakeholder Information Session

March 27, 2020



Region of Waterloo

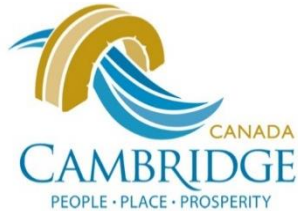


Agenda

- ▶ Background and Context
- ▶ Inclusionary Zoning Impact Analysis
- ▶ Next Steps
- ▶ Q & A/Wrap Up
 - ▶ Direct questions to: Tim.Donegani@kitchener.ca



Tim Donegani, Senior Planner



Valerie Spring, Senior Planner - Reurbanization



Michelle Lee, Interim Manager/ Senior Policy Planner

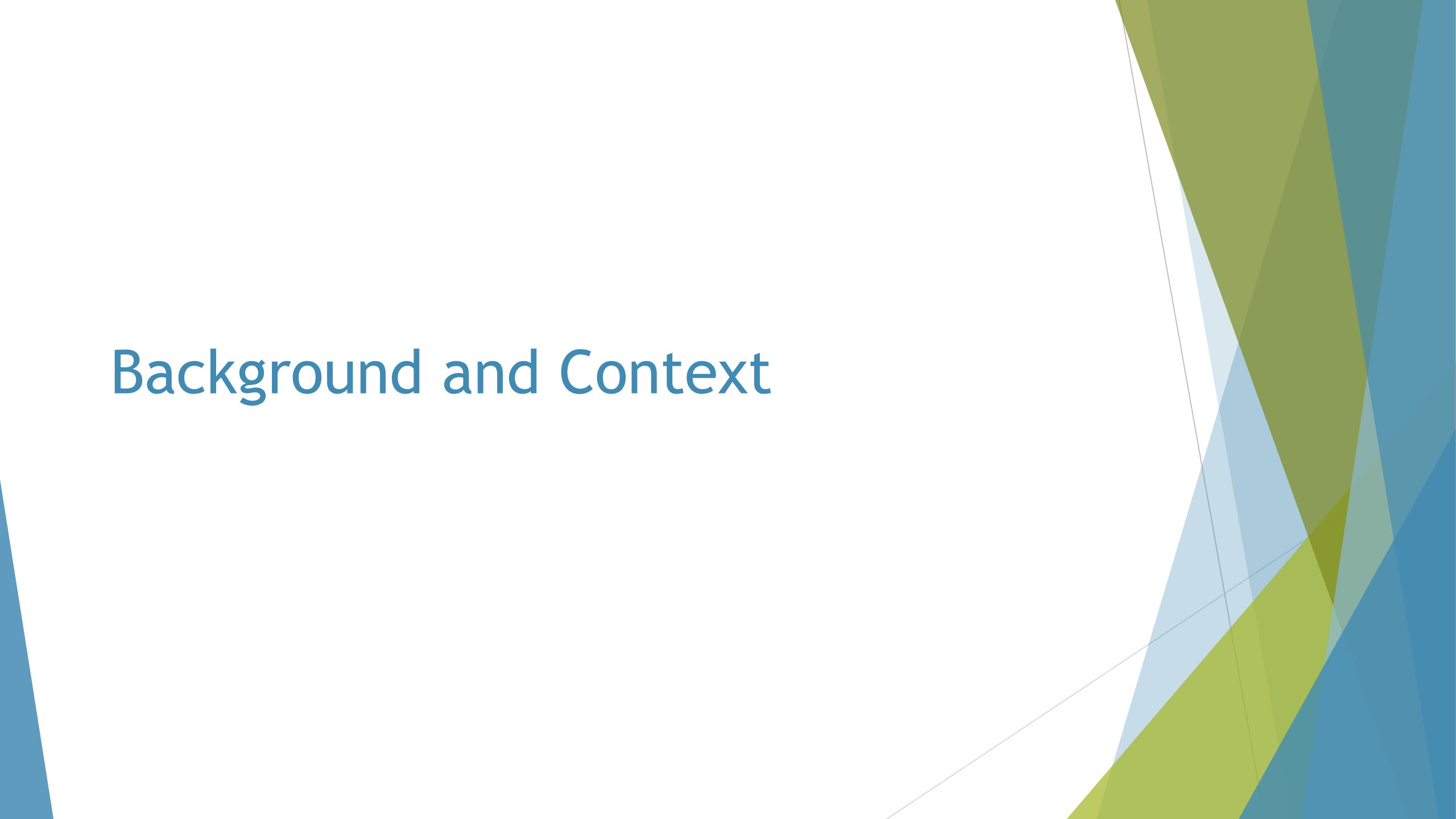


Victoria Gignac, Principal Planner, Housing Services



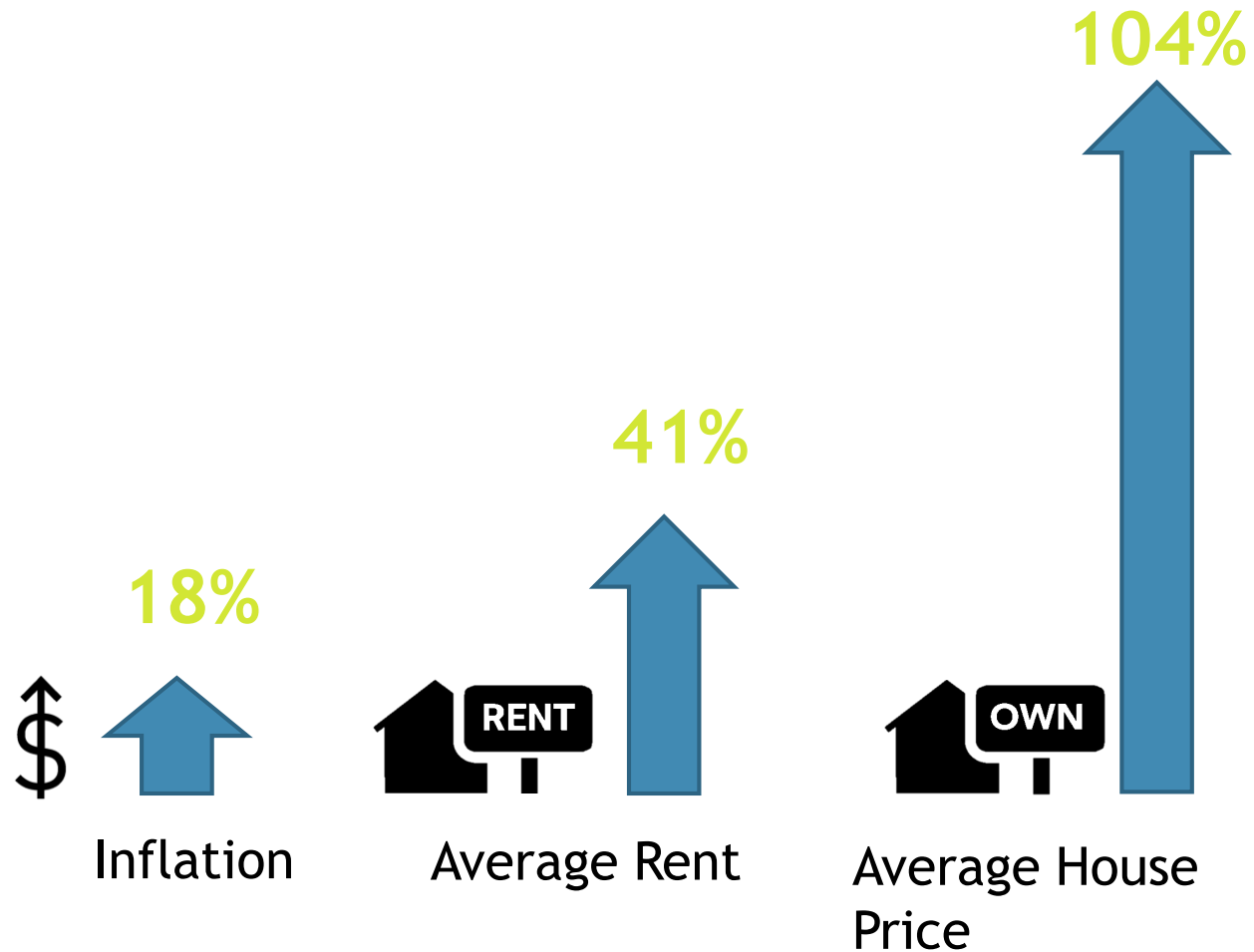
Matthew Bennett, Partner, NBLC

Background and Context



Housing Market is Changing

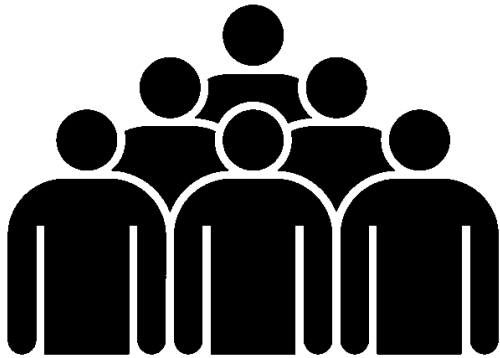
% Change from 2009 to 2019



Source: CMHC Annual Rental Market Reports, Kitchener-Waterloo Association of Realtors Custom Run Data, Bank of Canada

Housing Demand

Growing Population



2016 = 556,600
2041 = 835,000

↑ 50%

More Households



2016 = 203,800
2041 = 306,700

↑ 50%

Household Sizes



2016 = 2.73
2041 = 2.72

Stable

Aging Population

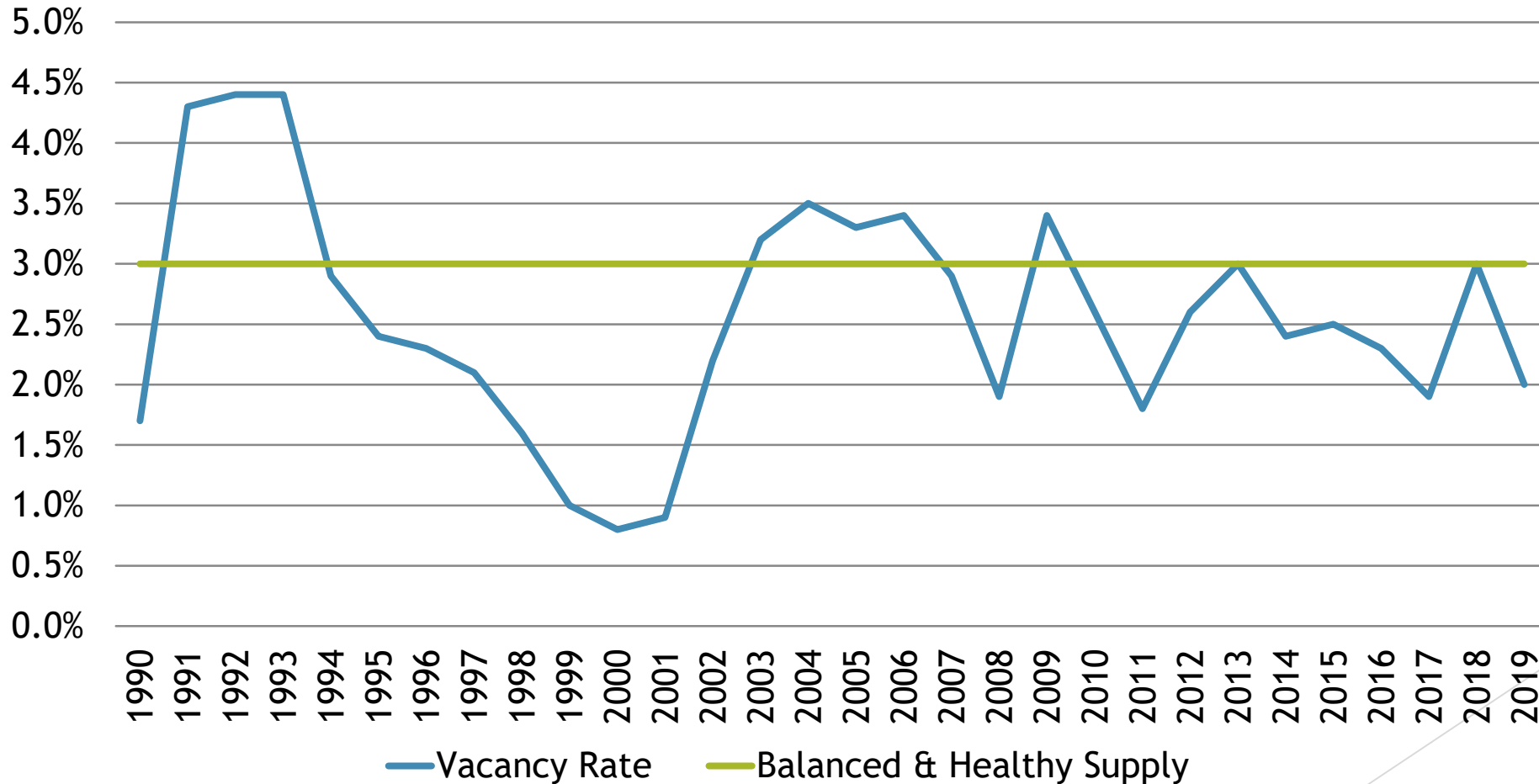


2016 = 77,200 (14%)
2041 = 141,150 (17%)

↑ 83%

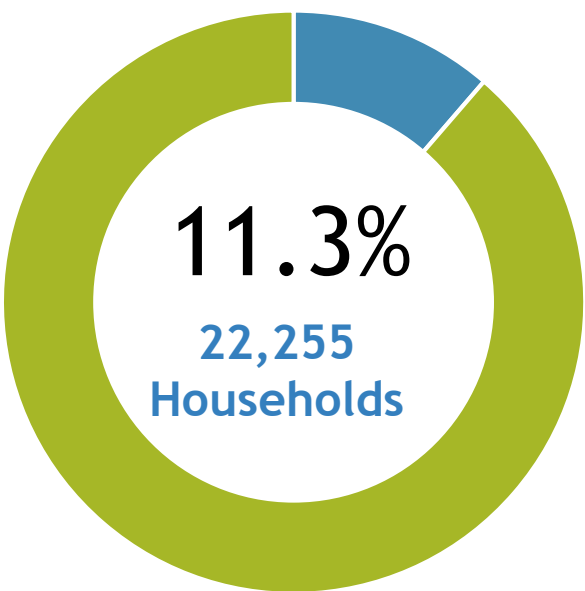
Tight Rental Market Rental Conditions

Vacancy Rate

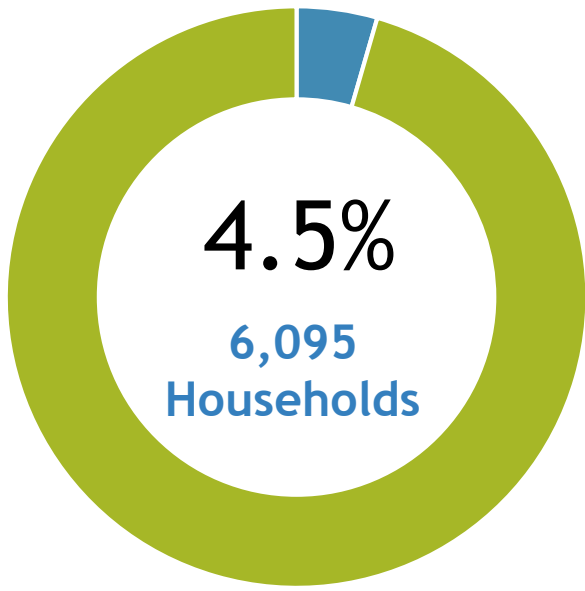


Source: CMHC Annual Rental Market Reports

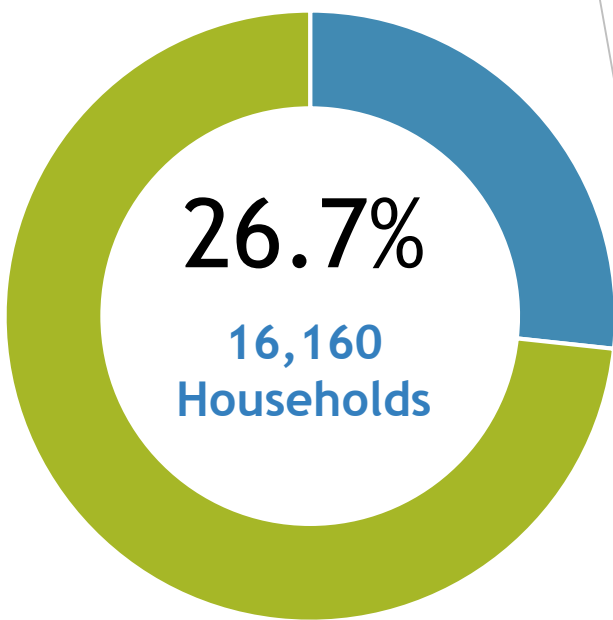
Households in Core Housing Need in Waterloo Region, 2016



All Households



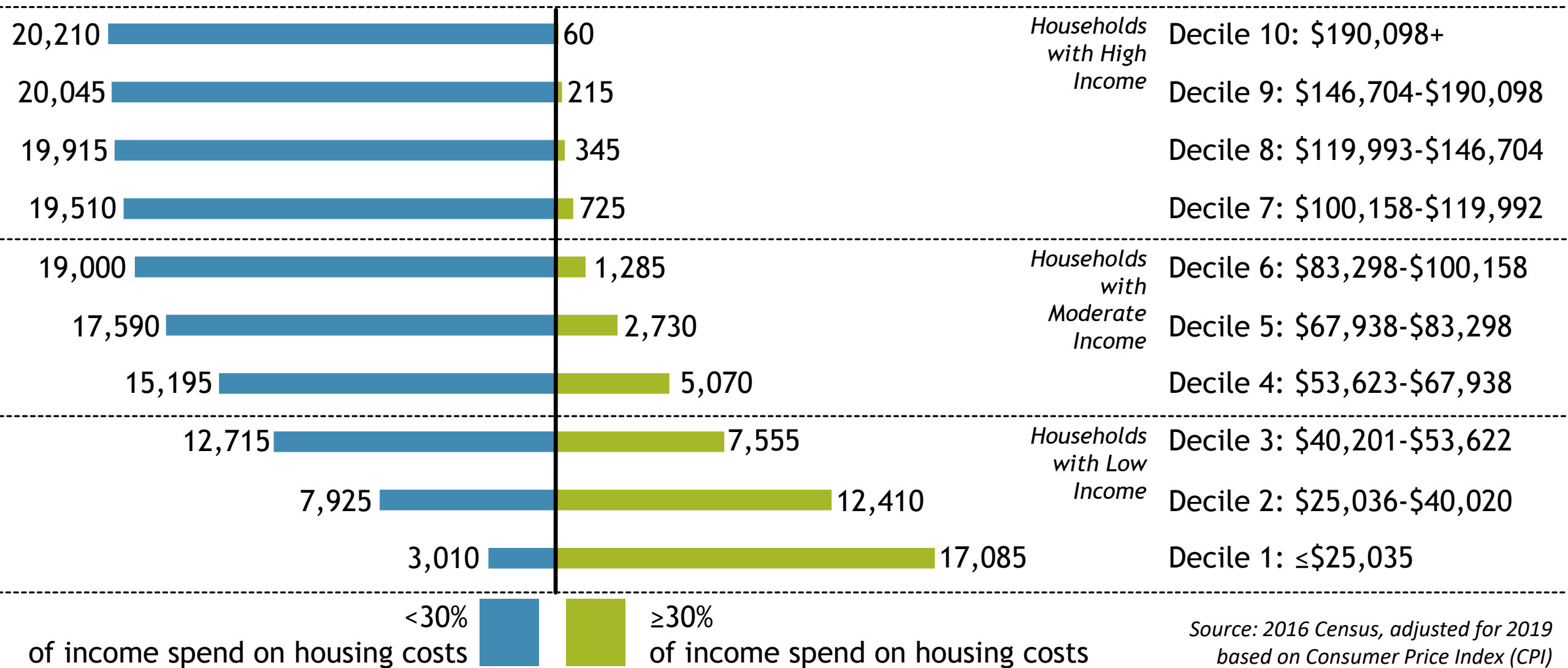
Owner Households



Renter Households

Core housing need: A household is considered in core housing need when at least one of the affordability, suitability or adequacy standards are not met and the household would have to spend 30% or more of its total before-tax income to pay the median rent of alternative local housing that is suitable and adequate.

% of Income Spent on Housing Costs by Income Decile

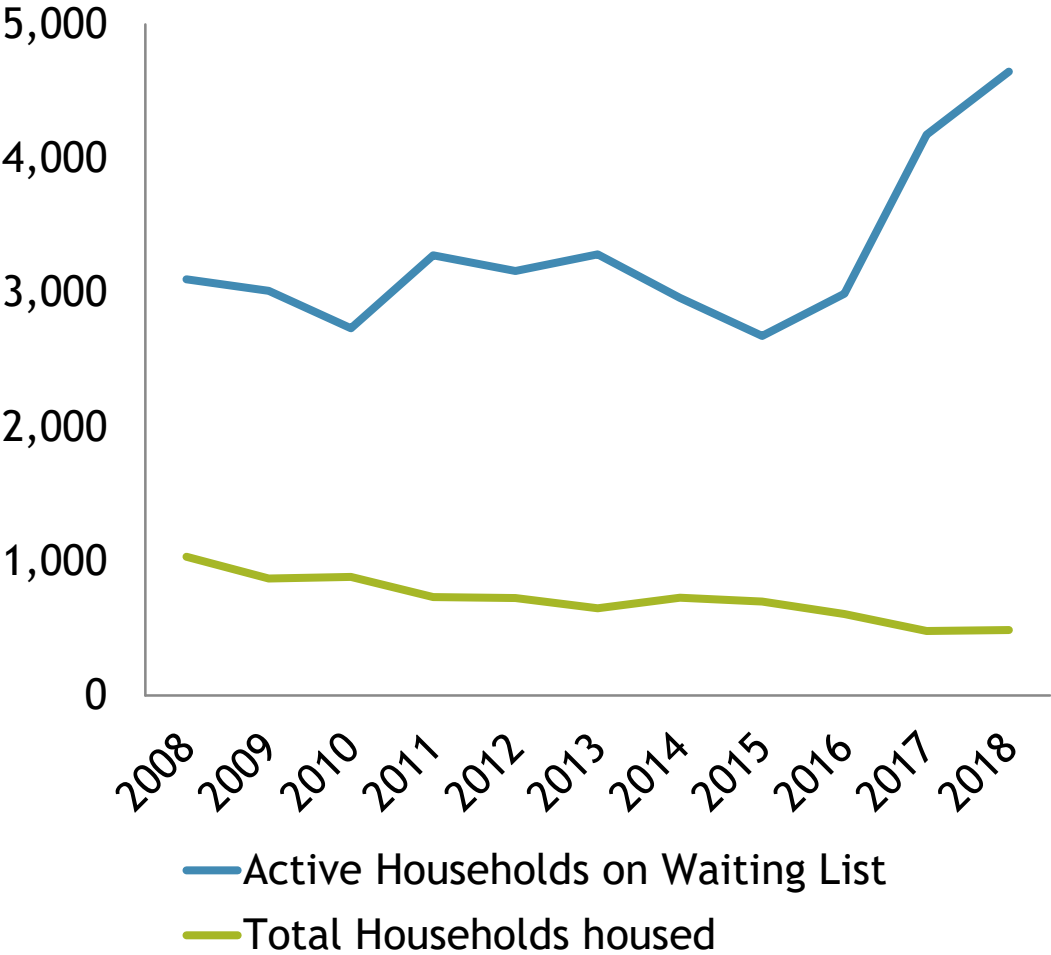


Example Occupations within Income Deciles

		House Can Afford	Rent Can Afford	Example of Occupations w/ Salaries in Decile Ranges
Households with High Income	Decile 10: \$190,098+	\$673,579+	\$4,752+	 Dentist \$149,760  Police Officer \$112,944  University Professor \$120,848
	Decile 9: \$146,704-\$190,098	\$673,579	\$4,752	
	Decile 8: \$119,993-\$146,704	\$519,823	\$3,668	
	Decile 7: \$100,158-\$119,992	\$425,173	\$3,000	
Households with Moderate Income	Decile 6: \$83,298-\$100,158	\$354,895	\$2,504	 Nurse \$72,900  Plumber \$58,862
	Decile 5: \$67,938-\$83,298	\$295,153	\$2,082	
	Decile 4: \$53,623-\$67,938	\$240,728	\$1,698	
Households with Low Income	Decile 3: \$40,201-\$53,622	\$190,001	\$1,341	 Janitor \$27,040  Retail/Sales Clerk \$29,120
	Decile 2: \$25,036-\$40,020	\$141,804	\$1,000	
	Decile 1: ≤\$25,035	\$88,710	\$626	

Household Can Afford: Assume 5% down payment, 30% income spent on housing, 25 years of amortization, property tax of 0.125% of house value/month; 4% mortgage insurance, 5.27% mortgage rate
Rent Can Afford: 30% of monthly income spent on housing

Non-Market Rental Supply vs Demand

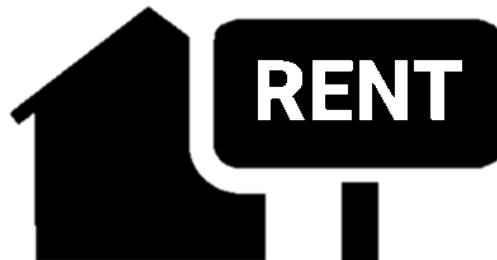


Non-Market Rental Supply	
Provider	Number of Units
Waterloo Region Housing	2,814
Private, Cooperative and Non-profit Sector	6,177
Total	8,991

Defining "Affordable" - *Provincial Policy Statement*

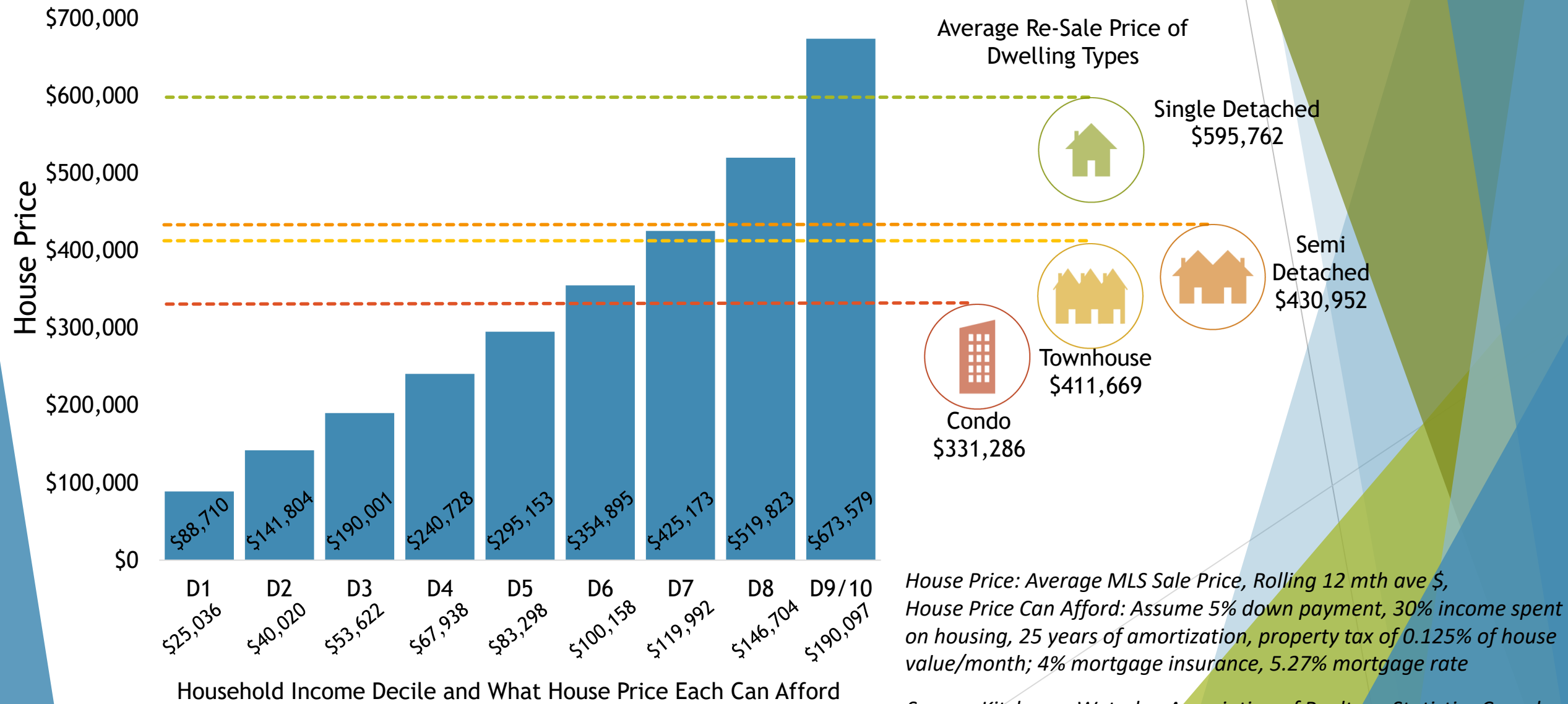


\$350,200

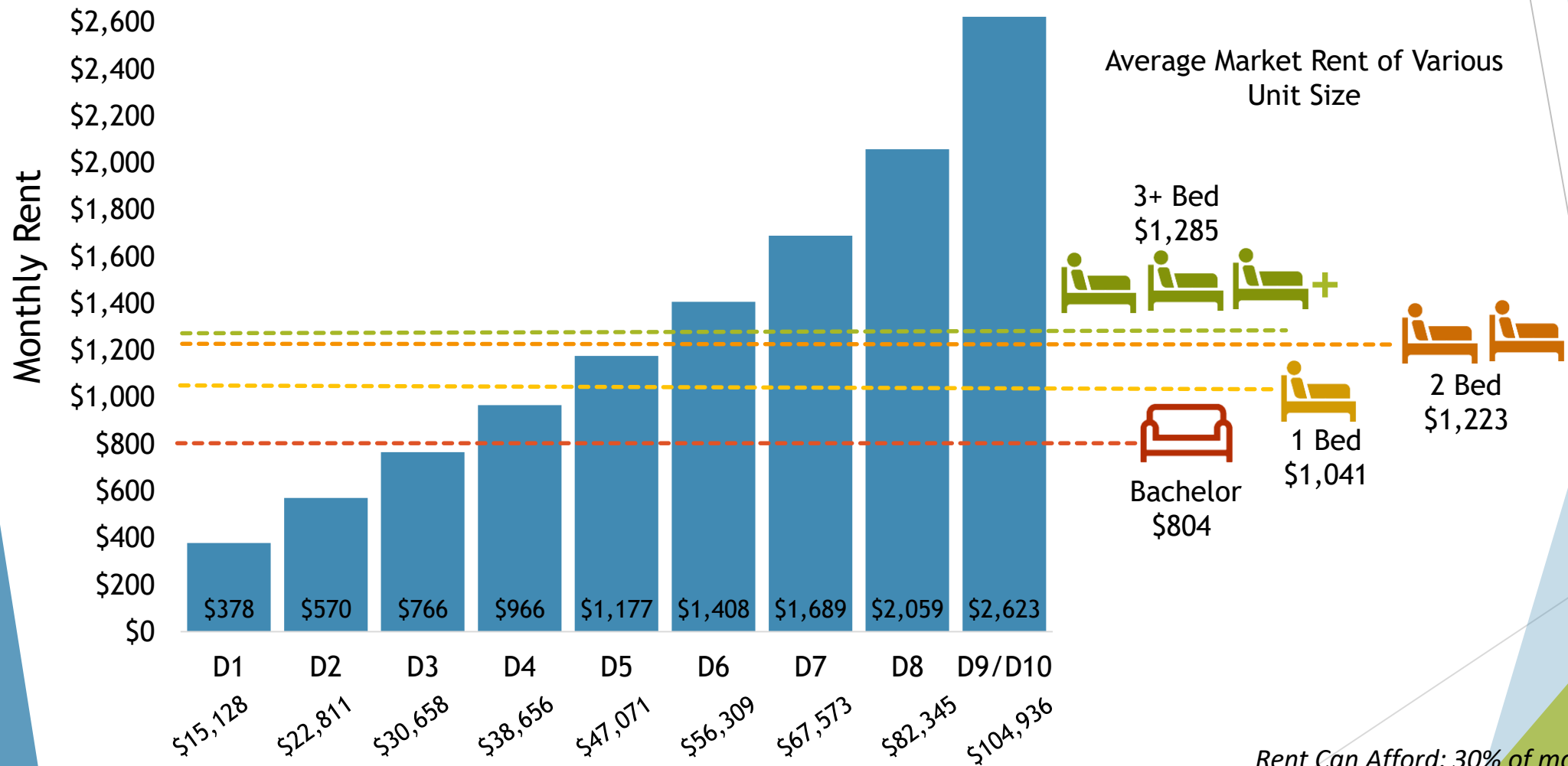


\$1,300/mo

Household Income by Deciles vs Average Re-sale Costs of Dwelling Types



Rental Household Income by Deciles vs Average Market Rents of Various Unit Sizes



Renter Household Income Decile and What Monthly Rent Can Afford

Rent Can Afford: 30% of monthly income spent on housing

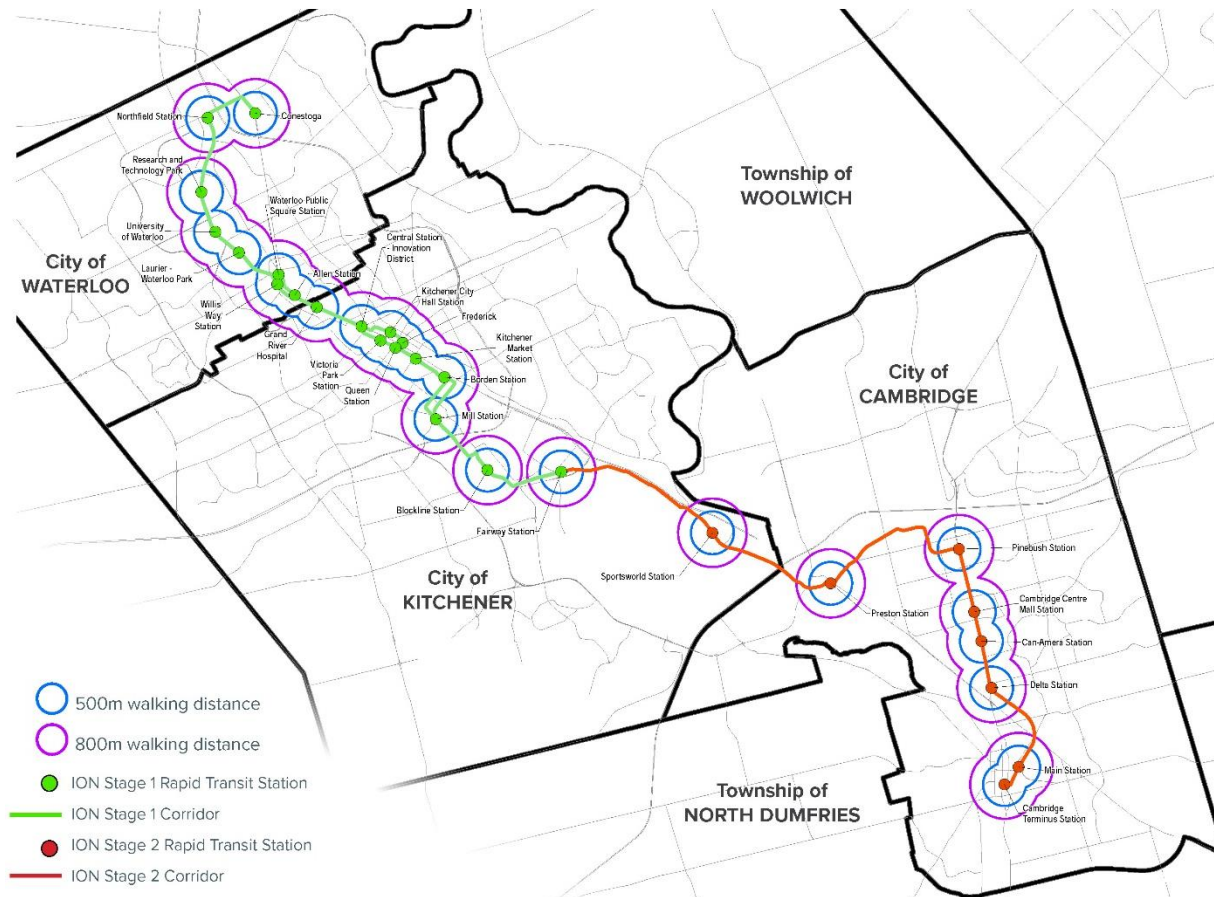
Source: Statistics Canada

Housing Continuum



Background: Inclusionary Zoning

- An optional land use policy tool available to lower/single-tier municipalities that may be used to require affordable housing units in new residential development





Inclusionary Zoning Financial Impact Analysis



Waterloo, Kitchener & Cambridge

IZ Impact Analysis

nblc

N. Barry Lyon Consultants Ltd.

Key Principles



Partner with
development
community



Capture
value in new
density



Long term
sustainability



Moderate
affordability



Minimize
land market
disruption

Land Value and Project Viability

Understanding Residual Land Value

Project Revenue	A
Project Costs	- B
Developer Profit	- C

Residual Land Value (RLV) = D

- If pricing is inelastic, increases to costs:
 - Impact land value (RLV); or,
 - Impact developer profit
- If RLV falls below the value of an existing use, owners are not motivated to sell...
- Developers won't proceed without desired profit, will look elsewhere...
- I.e. Project not viable

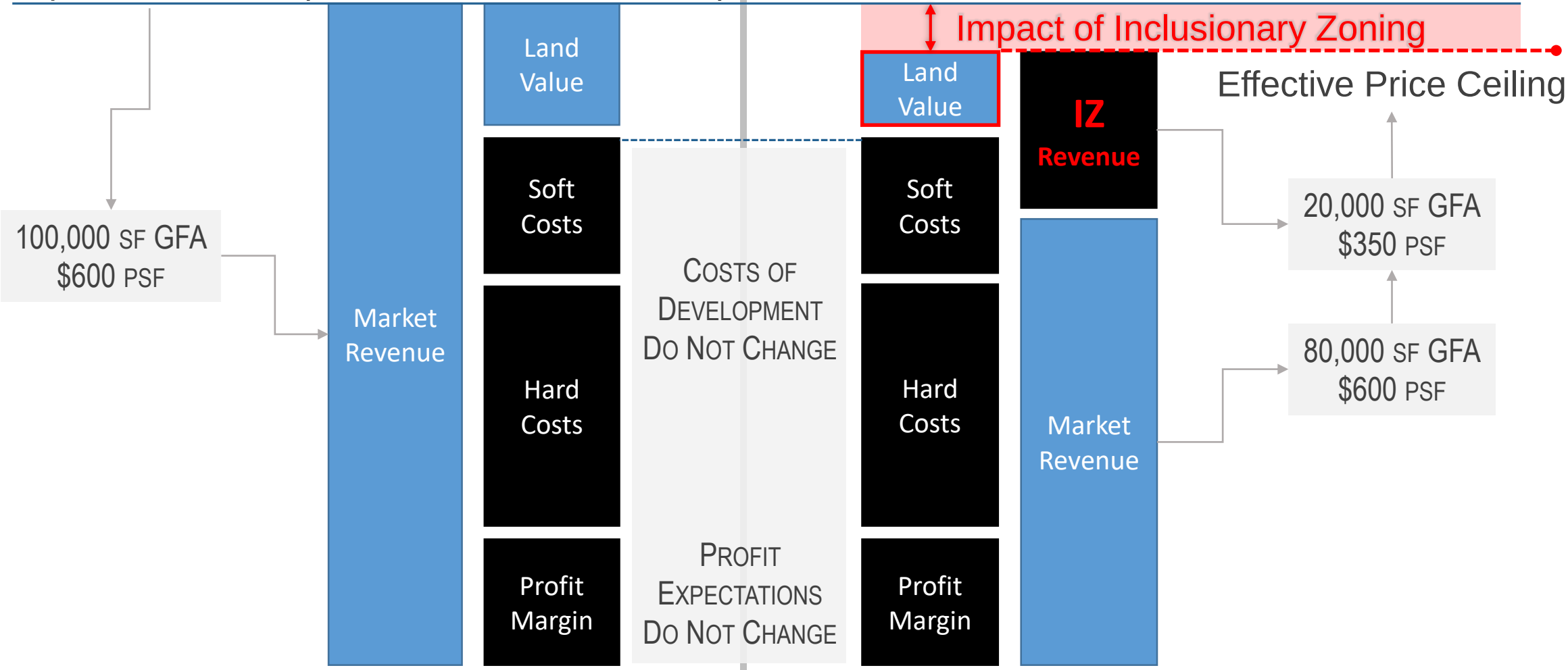
Major assumptions

- Housing prices established by supply & demand
- Housing costs established through:
 - Hard Costs *Fixed*
 - Soft Costs *Subject to variances*
 - Profit *Fixed*
 - Land *Subject to the above*
- Hard Costs and Profit are relatively fixed

Increase to Costs / Cap on Revenue = downward pressure on Land Value

Economics of Inclusionary Zoning

Equilibrium Price (*max that market can bear*)



Key:

Fixed

Variable

A. Typical Market Development

B. Inclusionary Zoning Development

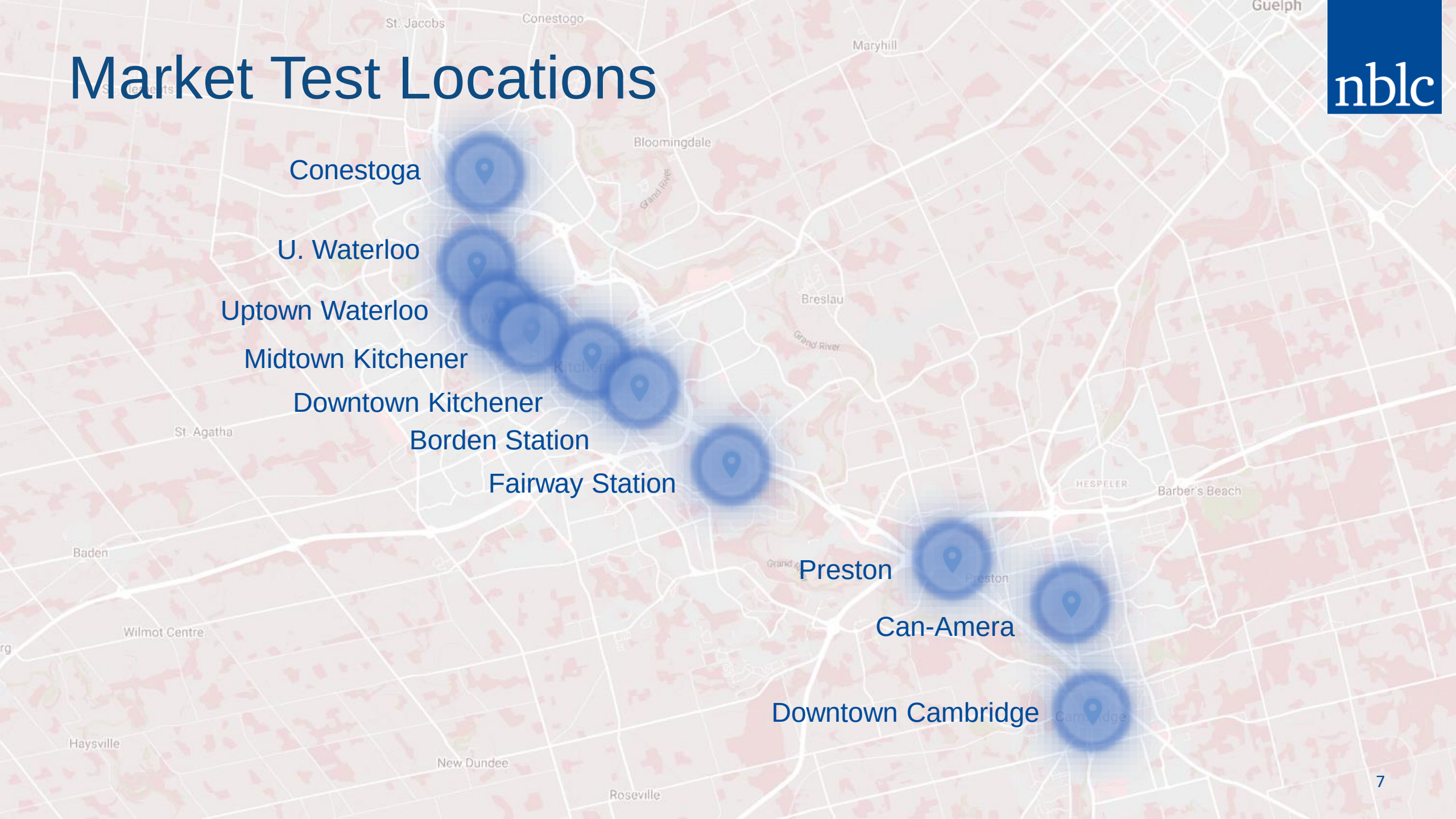
IZ approach for testing

- Objective: capture value through planning process for AH
- Testing with market components in condo & rental
- 10 test sites & ~160 proforma permutations

Key Variables:	Base Case Tests		Sensitivity Tests	
	Limited Timeline	Permanent Affordability	Deeper Affordability	Higher Set Aside Rate
Set Aside Rate % of Total GFA	10%	10%	5%	Max % viable (cap at 20%)
Depth of Affordability	100% AMR \$350 psf Ownership	100% AMR \$350 psf Ownership	60% AMR \$210 Ownership...	100% AMR \$350 psf Ownership
Period of Affordability*	25-years	Permanent	Permanent	Permanent

* Period of affordability applies only to rental scenarios

Market Test Locations

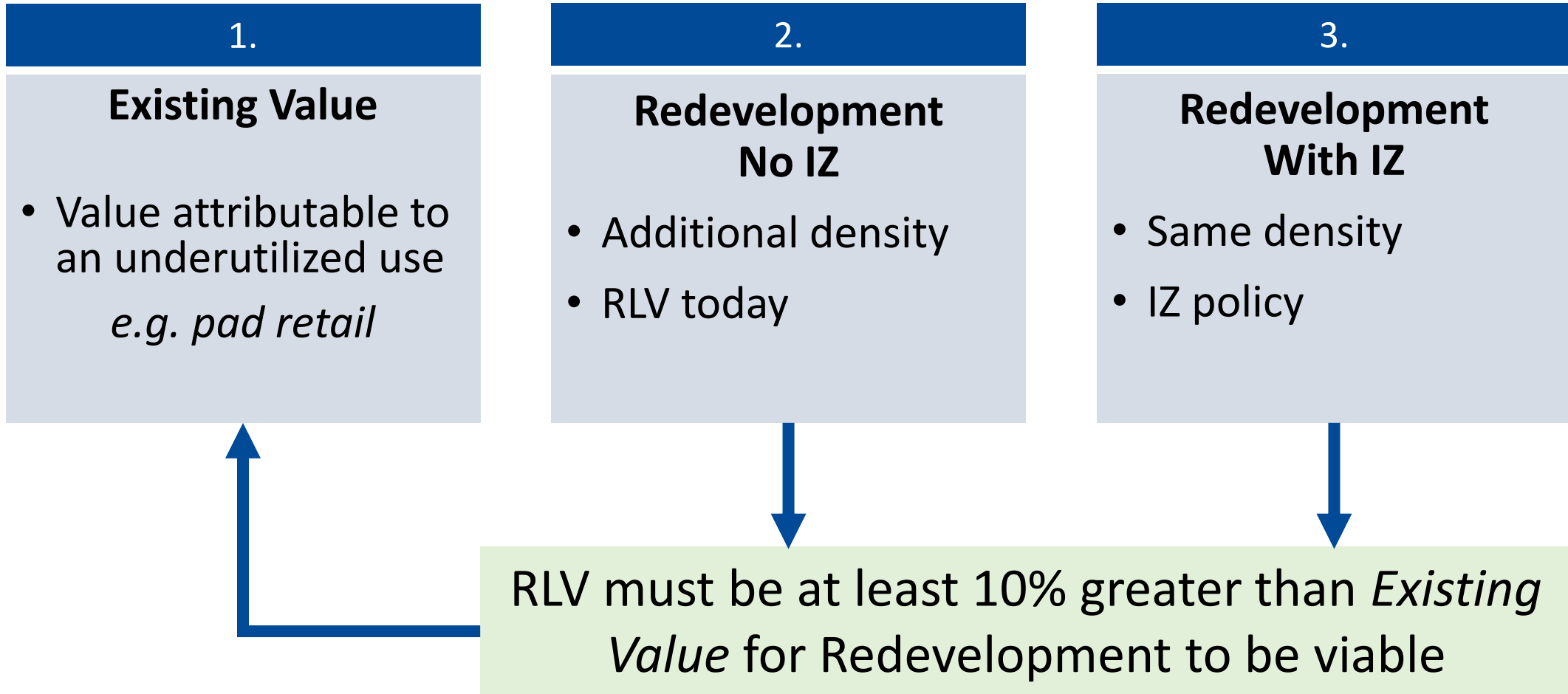


Limitations to our model



- Point in time analysis... Does not address:
 - Market shocks
 - The market's likely evolution
 - Landowners who have owned land for many years
 - Landowners who have recently purchased land without allowing for cost increases
- *Typical* developer costs
- Build & sell perspective, not long-term operating
- Prototypical built form & zoning assumptions
- Variations in 'existing use' valuations

Evaluating impacts



Example: Uptown Waterloo

1.

Existing Value

- Commercial retail
- Est Val: \$7.5M

2.

Redevelopment No IZ

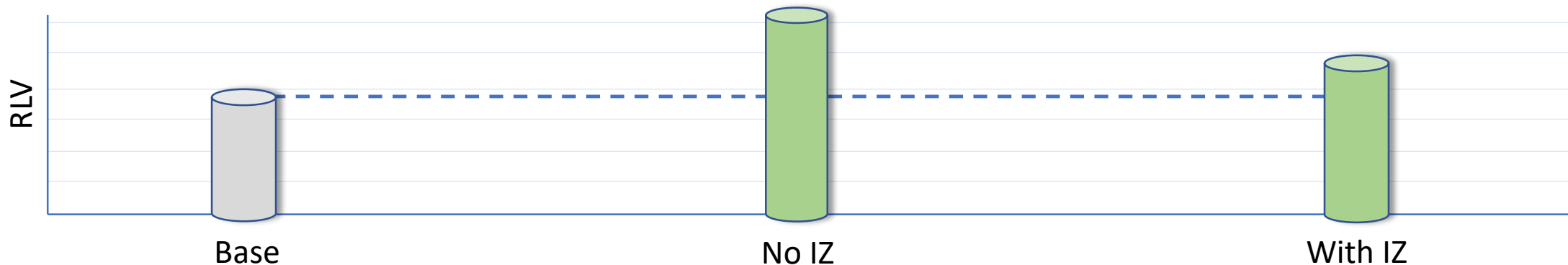
- Condo RLV: \$12M
- Rental RLV: \$10M

3.

Redevelopment With IZ

- Condo RLV: \$10M
- Rental RLV: \$8M

16% - 20% Impact to RLV
But, still exceeds value of existing use



Example: Fairway Station

1.

Existing Value

- Commercial retail
- Est Val: \$2.2M

2.

**Redevelopment
No IZ**

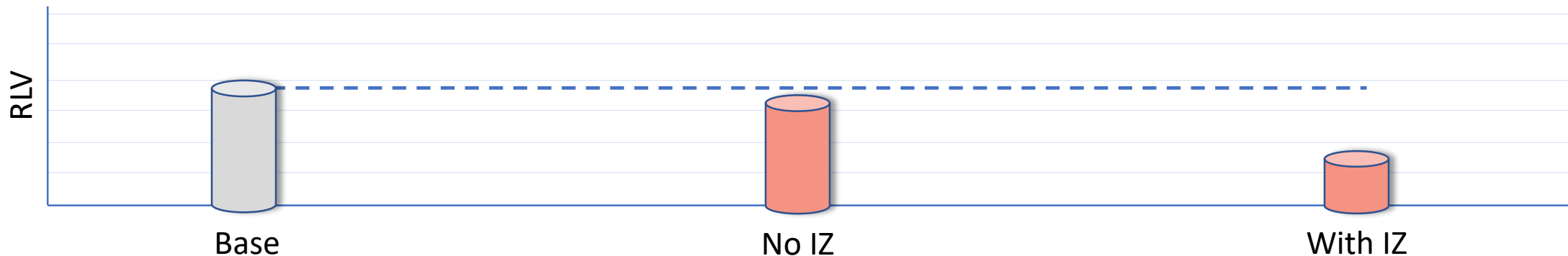
- Condo RLV: \$1.9M

3.

**Redevelopment
With IZ**

- Condo RLV: \$785K

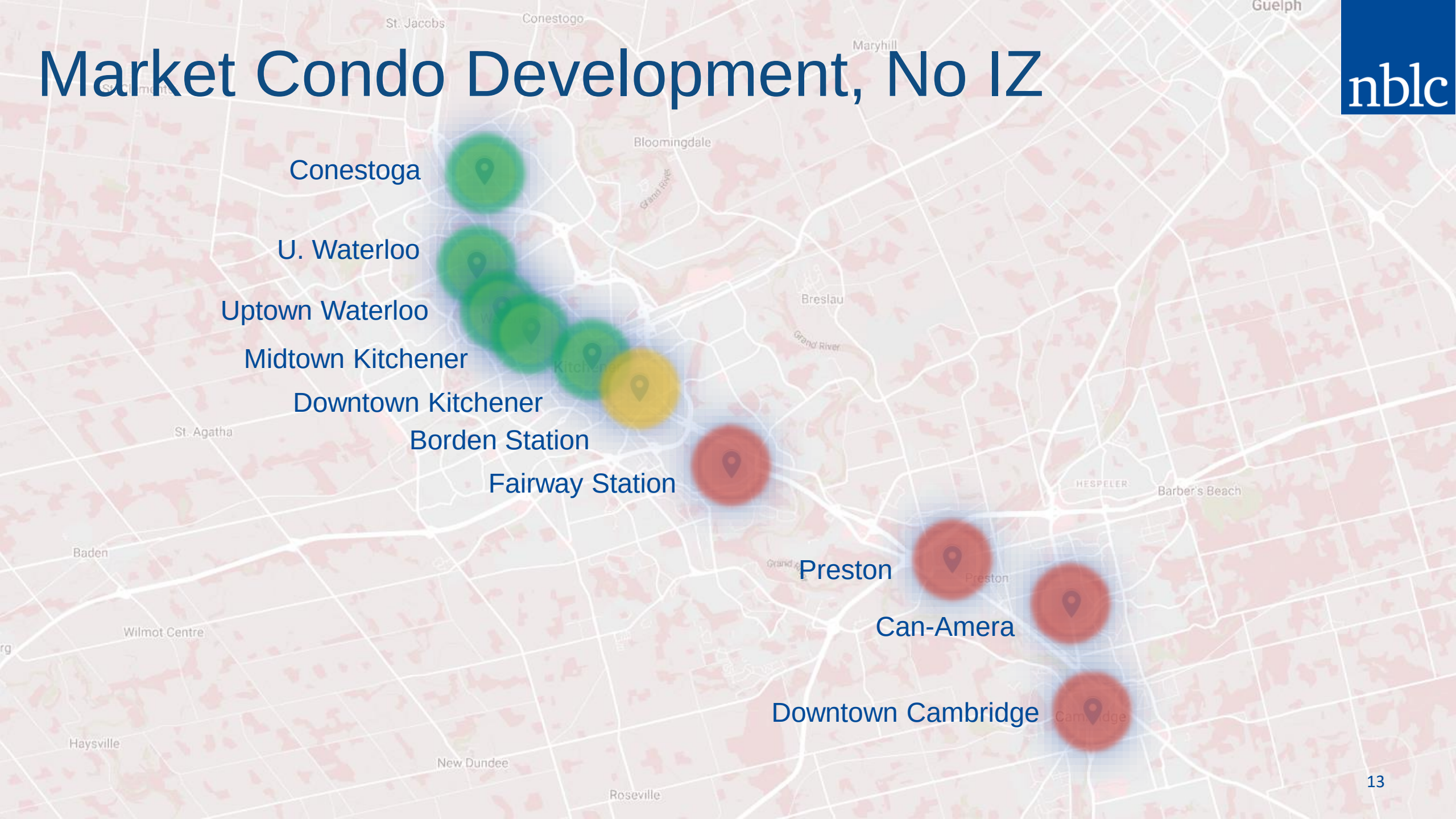
60% Impact to RLV
Redevelopment not viable



MTSA's aren't Created Equally

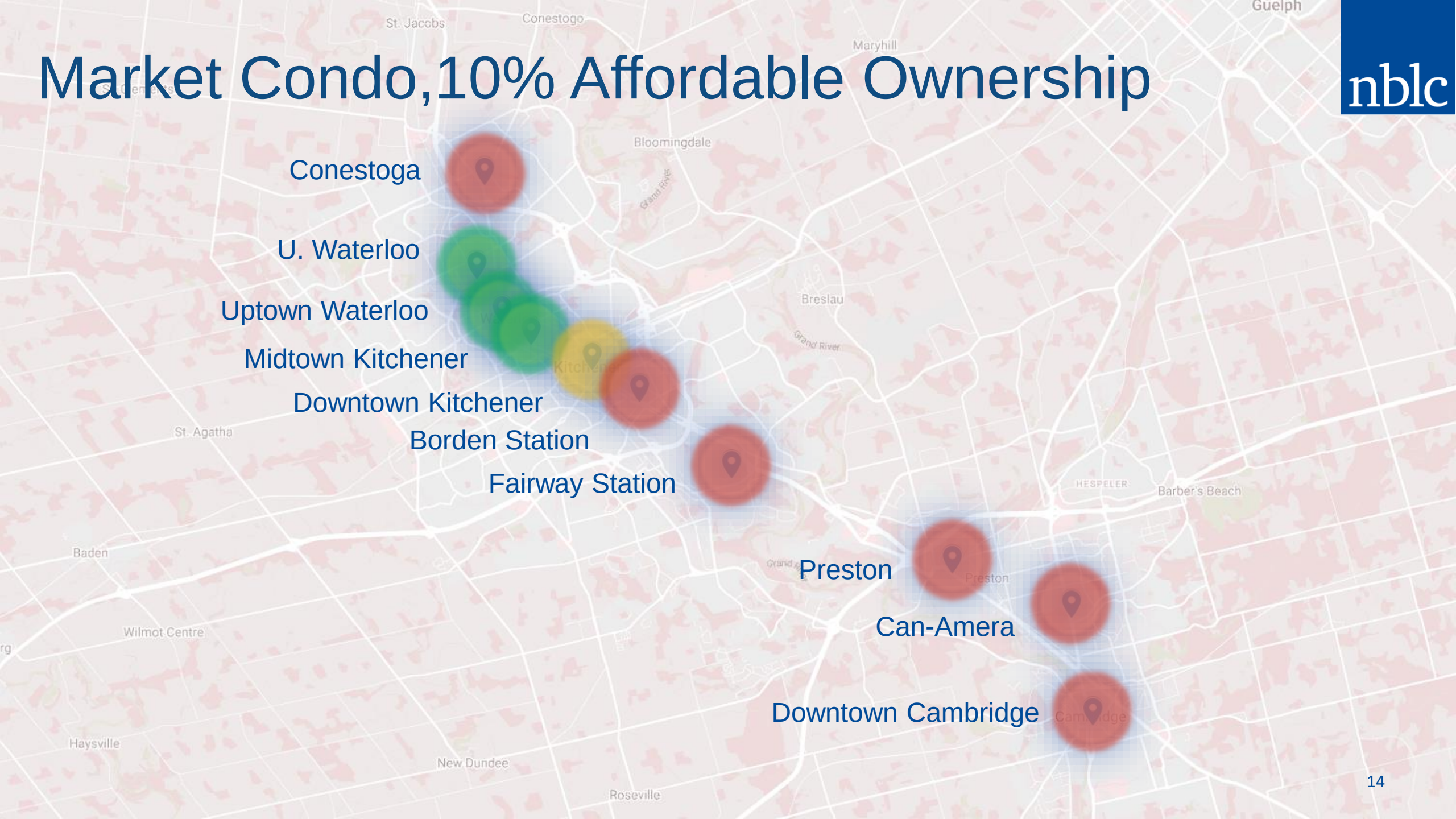
- High density market less mature outside of core KW markets
- Proactive land use planning has signaled potential
- Introducing IZ now is good!
- Strong Market Areas – IZ impacts relatively muted
 - Land values still in excess of existing values
- Weaker Market Areas – market development is marginal
 - IZ further reduces land value, but this will evolve
- Accelerating Activity
 - Density helps, only where it is valuable
 - Financial incentives impactful in emerging markets – some in place now
 - Future GO + LRT could be a game changer in Cambridge

Market Condo Development, No IZ



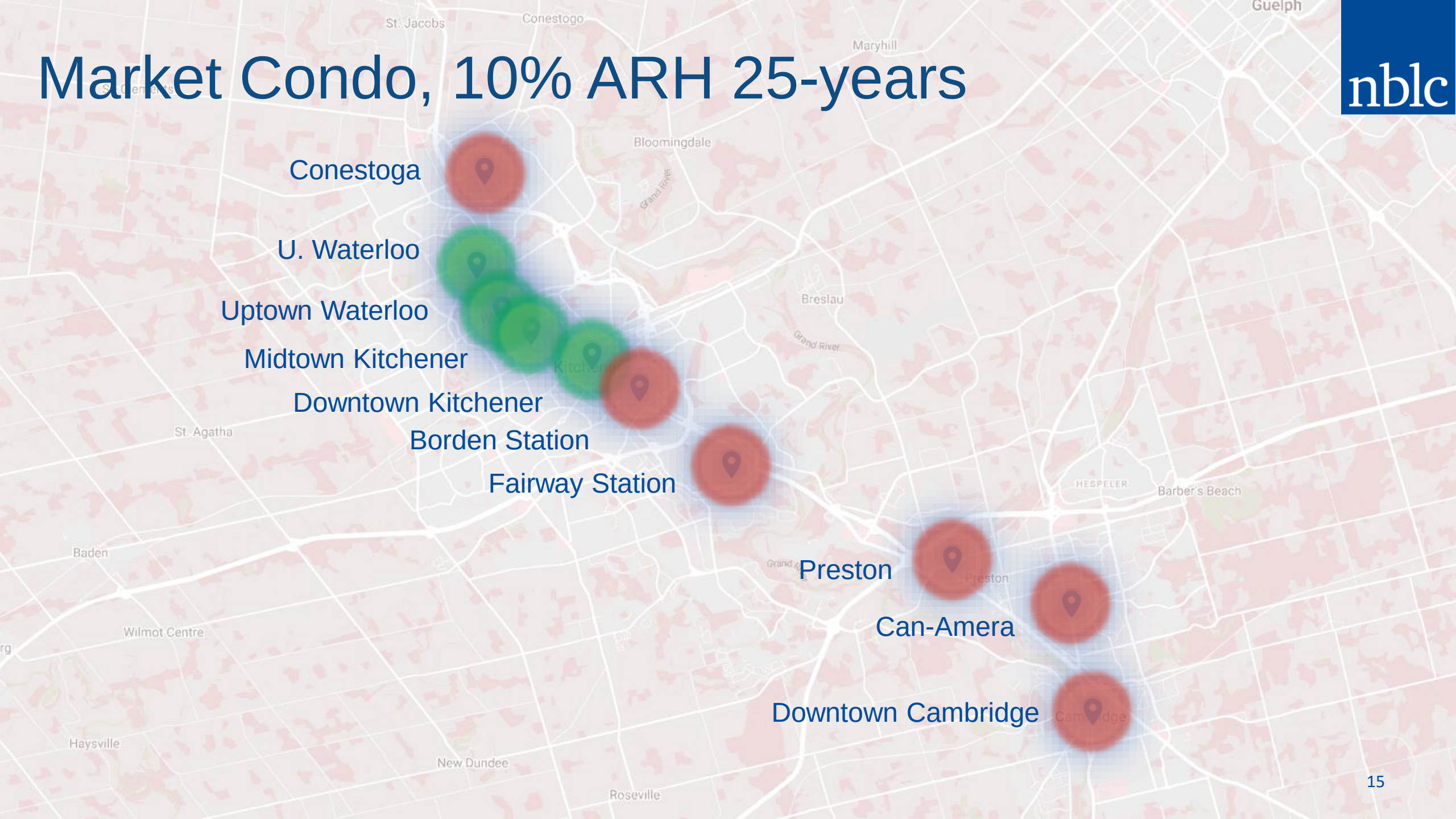
Market Condo, 10% Affordable Ownership

nblc



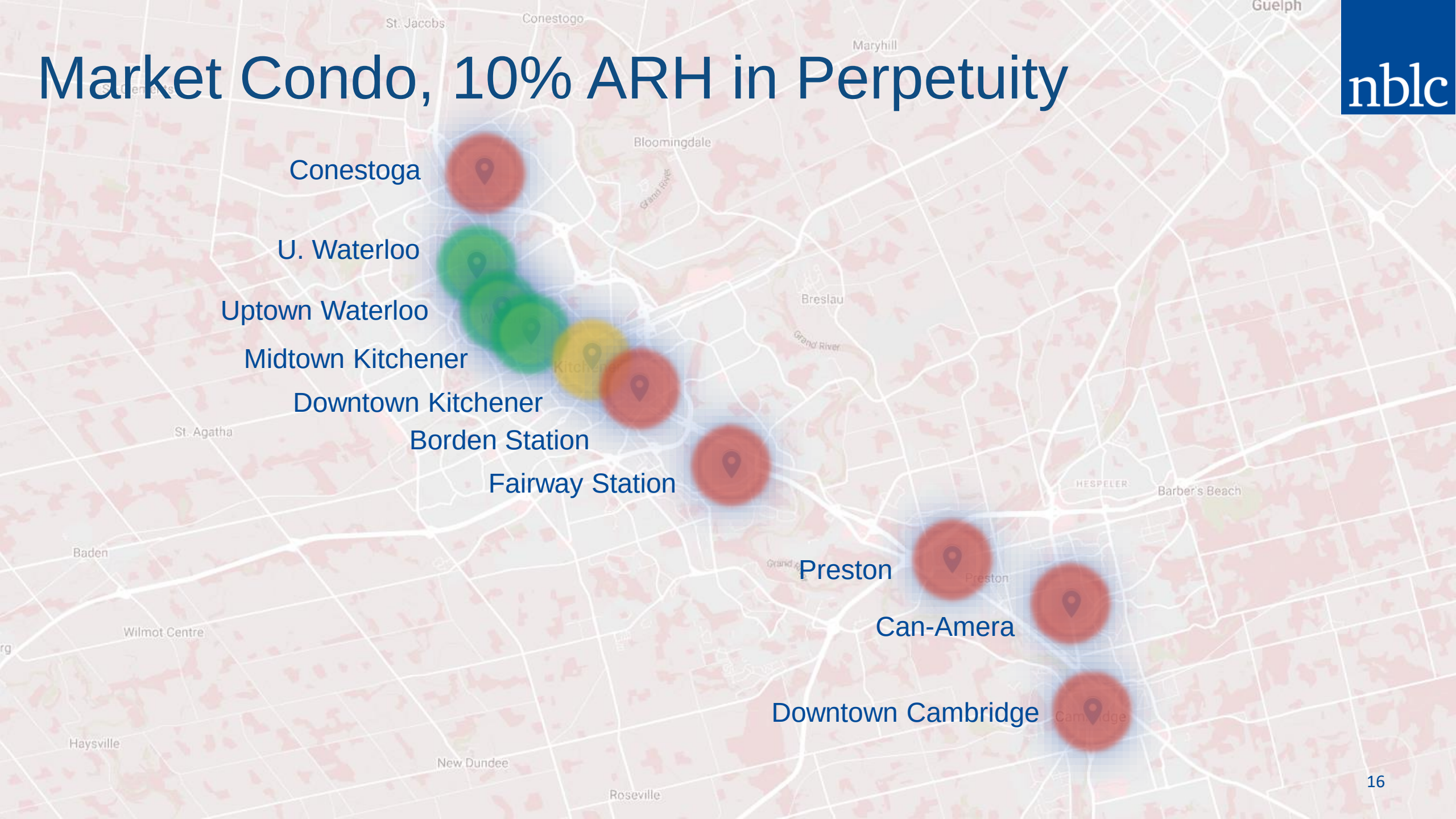
Market Condo, 10% ARH 25-years

nblc



Market Condo, 10% ARH in Perpetuity

nblc



Impacts & considerations for IZ policy

- Target areas for IZ
 - A broad-brush approach is not recommended
 - Initial focus on strong MTSAAs
- Set Aside Rate
 - Recommend a rate that starts low and increases over time
 - Allows land markets to adjust
- Phase-in Period
 - A signal to the market... policy is coming
 - Dovetail with MTSA planning
- Ongoing Review
 - Create a policy that allows for market/ set aside adjustments
- Operation of Affordable Units
 - Who owns & manages?

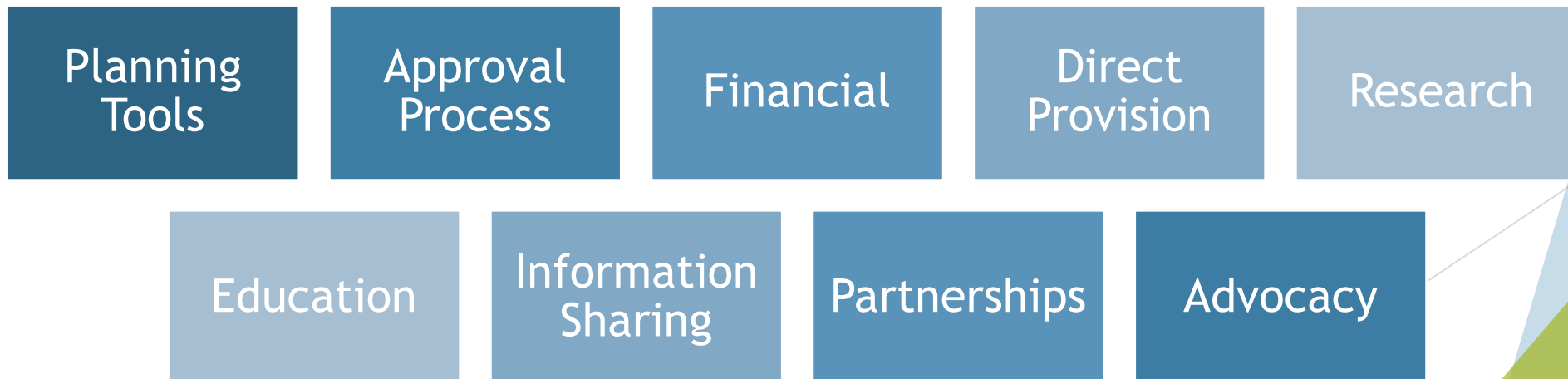
Next Steps

Council report #1

- Stakeholder feedback and the consultant's Fiscal Impact Analysis report for information
- Seek direction if council would like to explore IZ further
 - Kitchener - Spring 2020
 - Waterloo - Summer 2020
 - Cambridge - Summer 2020
- Policy development and stakeholder consultation Summer 2020+
- Establish Major Transit Station Area Boundaries through ROP review 2019-late 2020
- Councils consider Official Plan and Zoning By-law amendments late 2020+

Kitchener Affordable Housing Strategy

- ▶ Needs Assessment Jan 2020
- ▶ Issues and Options Spring 2020
- ▶ Draft Strategy Spring ~2020
- ▶ Final Strategy Late 2020



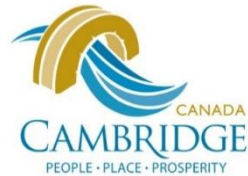


Direct questions to:
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Continue the Conversation!



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EngageWR
<https://www.engagewr.ca/inclusionary-zoning>