



STAFF REPORT
Planning

Title: Zoning By-law Amendment Z-24-20, Inclusionary Zoning within Protected Major Transit Stations Areas, City of Waterloo

Report Number: IPPW2025-014

Author: Douglas W. Stewart, MCIP, RPP

Council Date: March 3, 2025

File: Z-24-20

Attachments: Appendix 'A' – Proposed Zoning By-law Amendment
Appendix 'B' – Industry Comments
Appendix 'C' – 2024 Residential Market Update: October 2024, N. Barry Lyon Consultants

Ward Nos.: Wards 3 (Lakeshore), 4 (Northeast), 6 (Central-Columbia) and 7 (Uptown)

Recommendations:

1. That Council approve report IPPW2025-014.
2. That Council approve Zoning By-law Amendment Z-24-20, Inclusionary Zoning within Protected Major Transit Stations Areas, City of Waterloo, as set out in Appendix 'A' of IPPW2025-014.
3. That Planning staff be directed to continue to consult with the City of Kitchener, the City of Cambridge, and the Region of Waterloo to evaluate the timing of implementation of Inclusionary Zoning.
4. That Planning staff be directed to undertake an additional market assessment no later than September 30, 2025.
5. That Planning staff provide an update to Council no later than November 30, 2025, with the results of the consultation and the market assessment, and to provide recommendations on the timing of implementation of Inclusionary Zoning.

A. Executive Summary

On June 24, 2024, Council approved a framework to create Inclusionary Zoning (“IZ”) policies and regulations. Official Plan Amendment No. 50 is now in force and Zoning By-law No. 2024-058 is now in effect (as of September 12, 2024).

Therefore, based upon the approved policies and regulations, effective March 31, 2025, residential developments on lands located within Protected Major Transit Station Areas (PMTSA) require a minimum percentage of Gross Leasable Residential Area (GLA) to be set aside for affordable residential units.

As part of Council’s approval of the IZ framework in June 2024, there was a further commitment to undertake an analysis of the local real estate market and to consult with the community and local development industry prior to the implementation of date of March 31, 2025. The intent was to assess market conditions at the time of IZ implementation.

Planning staff have been working with the cities of Kitchener and Cambridge, and the Region of Waterloo (collectively the “Municipalities”) and the local development industry to monitor local market conditions.

On behalf of the Municipalities, N. Barry Lyon Consultants (NBLC) prepared a report analyzing the local market conditions for high-rise residential development within Protected Major Transit Station Areas (PMTSA) and advised that the economics for development have become more challenging in recent years, with development activity generally not economically viable.

NBLC noted that the implementation of Inclusionary Zoning at this time could further delay the recovery of the residential construction market within PMTSA and exacerbate current challenges in delivering housing within these areas.

In recognition of current market conditions and the recommendations of NBLC, Zoning By-law Amendment Z-24-20 proposes to modify the date of implementation of IZ from March 31, 2025, to January 1, 2026, and to delete the requirement for a by-law be passed to enforce maximum rent to be charged.

The intent of Zoning By-law Amendment Z-24-20 is to amend the IZ implementation date and to delete the requirement for a by-law be passed to enforce maximum rent to be charged. Staff support the advice from NBLC and their analysis. No comments were received through the circulation of Zoning By-law Amendment Z-24-20 opposing the proposed modification to the implementation date.

Given that implementation of Inclusionary Zoning is dependent on market base units being built, there should be continued consultation with the Municipalities, and further

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engagement of the local development industry on the timing of implementation of Inclusionary Zoning. An additional market assessment is proposed to be completed no later than September 30, 2025. Based on the additional consultation and the market assessment, recommendations on the timing of implementation of IZ will be provided to Council no later than November 30, 2025.

Inclusionary Zoning aligns with the City's target for affordable housing as set out in most recent update to the Official Plan (that 30% of new housing units be affordable).

B. Financial Implications

The Development Charges By-law 2019-064 (the "DC By-law"), Community Benefits Charge By-law 2022-072, and Parkland Dedication By-law 2022-073 rely on Zoning By-law 2018-050 (the "Zoning By-law") to define residential and non-residential uses to determine the development charge rates applicable to development/redevelopment.

Affordable residential dwelling units developed through the IZ policies/regulations are exempt from Development Charges, Community Benefit Charges (CBC) and Parkland/Cash In Lieu of Parkland (Parkland/CILP). Development Charges, Community Benefit Charges and Parkland/CILP continue to apply to the remainder of the proposed development in accordance with the applicable by-laws.

Zoning By-law Amendment Z-24-20 would not affect the existing exemption of IZ from Development Charges, Community Benefits Charges and Parkland Dedications.

C. Technology Implications

Not applicable.

D. Link to Strategic Plan

Strategic Priorities:

Reconciliation, Equity, Accessibility, Diversity, and Inclusion; Environmental Sustainability and Climate Action; Complete Community; Infrastructure and Transportation Systems; Innovation and Future-Ready

Guiding Principles:

Equity and Inclusion; Sustainability; Integrity; Workplace Wellbeing; Community-centred; Operational Excellence)

The IZ policies and regulations support the creation of a range and mix of housing options within PMTSA, resulting in greater housing diversity and affordable housing. The IZ policies and regulations support the strategic goal of fostering a Complete Community.

E. Previous Reports on this Topic

Inclusionary Zoning, Official Plan Amendment 50 and Zoning By-law Amendment Z-23-15, IPPW2024-008, June 24, 2024



Zoning By-law Amendment Z-24-20, Inclusionary Zoning within Protected Major Transit Stations Areas, City of Waterloo IPPW2025-014

SECTION 1 - INTRODUCTION

On June 24, 2024, Council approved the adoption of Official Plan Amendment No. 50 (By-law 2024-059) and passed Zoning By-law No. 2024-058 to establish Inclusionary Zoning (“IZ”) policies and regulations within PMTSA. On September 12, 2024, the Region of Waterloo issued the Notice of Decision to approve Official Plan Amendment No. 50. Effective September 12, 2024, the policies and regulations for IZ are in force and effect. The approved policies and regulations provide for an implementation date of March 31, 2025.

Zoning By-law Amendment Application Z-24-20 is a City-initiated application that proposes to modify two zoning regulations as they relate to inclusionary zoning:

Section 3.1.2.c) of Zoning By-law 2018-050

Amend the date when the Set Aside Rates are to be implemented from March 31, 2025 to January 1, 2026.

Section 3.1.2.e) of Zoning By-law 2018-050

Delete the requirement for a by-law to be passed to enforce maximum rent to be charged.

On June 24, 2024, Council also approved Recommendation 5 within report IPPW2024-008 which states:

“That staff be directed to monitor local market conditions and engage with the community and the development industry, as appropriate, and report back to Council no later than the end of 2024, 2025, 2028 and 2030, with recommendations on whether Inclusionary Zoning requirements should continue to be advanced or modified, within the Market Area categorization, and set out in Report IPPW2024-008.”

Planning staff have been working with the cities of Kitchener and Cambridge, and the Region of Waterloo (collectively the “Municipalities”) on Recommendation 5, and met with representatives of the development industry to monitor local market conditions.

The development industry has expressed concerns that the policy and regulatory requirements for IZ could exacerbate market conditions and further delay the construction of new market based residential dwelling units. This concern is consistent with the advice received through N. Barry Lyon Consultants (NBLC).

The City of Waterloo and the Municipalities retained NBLC in October 2024 to prepare a report analyzing the local market conditions for high-rise residential development within Protected Major Transit Station Areas (PMTSA). NBLC advised that the economics for development have become more challenging in recent years, with development activity not being economically viable and residential projects not moving forward.

NBLC noted that the implementation of Inclusionary Zoning at this time could further delay the recovery of the residential construction market within PMTSA and exacerbate current challenges in delivering housing.

The recommendation to modify the implementation date of IZ is the result of consultation with representatives of the development industry, the recommendations of NBLC, the review of other relevant metrics (including building permits and planning approvals), and for consistency with the City of Kitchener which recently deferred the implementation of IZ to January 1, 2026. Current market conditions are a challenge for high-rise residential development; implementation of IZ in early 2025 may further exacerbate the existing market conditions and stifle new residential development from moving forward.

SECTION 4 - PLANNING ANALYSIS

The City of Waterloo and the Municipalities have strived to align their adoption and implementation of Inclusionary Zoning to create a consistent local planning framework for IZ.

The City of Kitchener amended its Official Plan and Zoning By-law late in 2024 (the Official Plan Amendment is subject to approval by the Ministry of Municipal Affairs and Housing), shifting the implementation of IZ to January 1, 2026. The City of Cambridge is actively working on amendments to its Official Plan and Zoning By-law in relation to inclusionary zoning.

For application Z-24-20, the following were evaluated by staff through a high-level desktop review:

- Housing Pledge and Building Permit Trends
- Development Applications in the Pipeline
- NBLC Report Key Findings

4.1 *Housing Pledge and Building Permit Trends*

In late 2022, the province assigned housing targets to large urban municipalities for the period of 2022 to 2031. The City of Waterloo committed via IPPW2023-013 to a housing

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pledge of 16,000 new homes by the year 2031 as its contribution towards Ontario's goal of building at least 1.5 million homes by 2031.

Table 1 - Waterloo Housing Tracking (Estimated December 2024)

Municipality	Ten-year housing target	Total housing added since 2022	Housing target for 2024	Total housing added in 2024	Progress % for 2024
Waterloo	16,000	2,461	1,333	898	67.4%

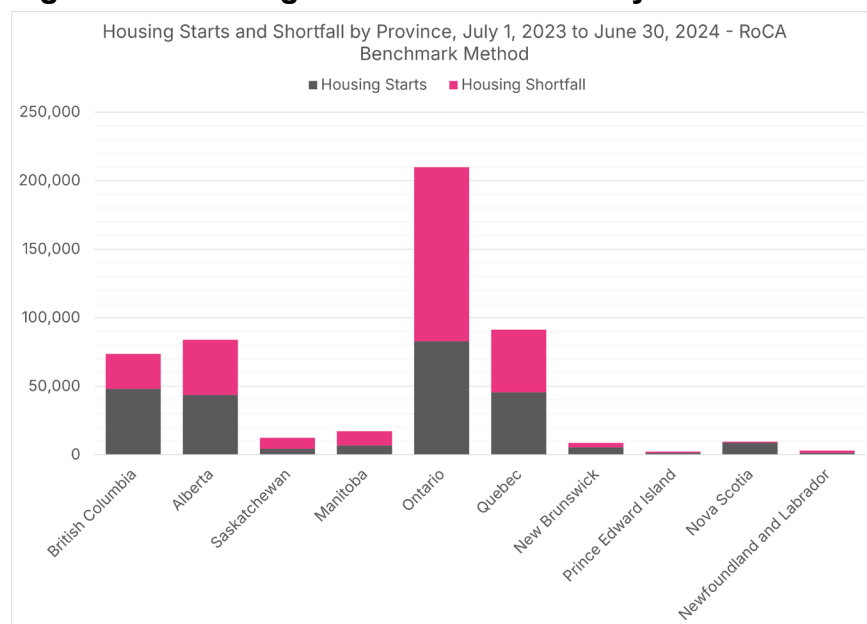
Source – Ontario tracking of supply plus November and December Residential Building starts (source CMHC).

Table 1 illustrates that the City is not currently achieving its average yearly housing pledge as of the end of 2024. Most of the reasons for the lower housing starts are beyond the control of municipalities, such as interest rates. As outlined within the NBLC report, market conditions are not conducive for major residential and mixed-use projects moving forward and requiring IZ could exacerbate the market conditions and may further delay projects.

To achieve the Housing Pledge, the City from 2025 to 2031 will have to provide for an additional 13,539 homes, which results in a yearly average of 1,935 houses.

The housing sector throughout Canada is slowing and the decline of housing starts is not unique to Waterloo or even the Province of Ontario. However, the slowing in Ontario is particularly pronounced, as can be seen in Figure 1:

Figure 1 – Housing Starts and Shortfall by Province



Source: <https://www.missingmiddleinitiative.ca/p/canada-needed-to-add-500000-homes>

Table 2 illustrates that the development industry within Cambridge and Kitchener is not achieving the applicable targets to meet the housing pledges:

Table 2- Other Cities within the Region and their Housing Pledge

Municipality	Ten-year housing target	Total housing added since 2022	Housing target for 2024	Total housing added in 2024	Progress % for 2024
Cambridge	19,000	2,908	1,583	626	39.55%
Kitchener	35,000	8,565	2,917	2,038	69.87%

Source Ontario tracking supply progress as of October 2024 (latest information - Province of Ontario).

4.2 Development Applications in the Pipeline

As of December 2024, there are 24,141 housing units within the various stages of Planning and Building Standards processes. This includes active planning files, Ontario Land Tribunal files, approved planning files with no Building Permit, files under review for a Building Permit, as well as files that have been issued a Building Permit but have not been occupied. Further, there is substantial ‘as-of-right’ development capacity on zoned sites throughout the city.

Of the 24,141 housing units, 20,959 units (86%) have not yet submitted a building permit application. It appears that the development industry is readying itself for the next economic cycle, securing planning approvals now to expedite building permits when market conditions enable economically viable developments.

4.3 N. Barry Lyon Consultants Ltd Market Assessment

The market assessment completed by NBLC in October 2024 demonstrates that the development industry is facing headwinds that are preventing a large number of new developments from progressing to construction. Construction costs have increased significantly since 2019, as well as land values and interest rates. While the real estate market was very robust until early 2022, there has been a marked shift downward in recent years, which has resulted in low sales, little investor interest, falling real estate values, and general uncertainty over the direction of the market going forward. This is concerning to the development industry, which has responded by pausing new projects.

It should be noted that Purpose Built Rental (“PBR”) projects have fared better in this market. The Government of Canada offers lower interest rates and longer amortization to PBR projects, which has enabled PBR projects to continue to be viable in the market. However, without such government programs, PBR projects may also stall out.

SECTION 5 - ENGAGEMENT

A formal circulation and request for comments on Zoning By-law Amendment Z-24-20 was provided to the prescribed agencies, other interested parties, and internally on January 8, 2025. Comments were due no later than January 24, 2025.

An Engage Waterloo page was created on January 10, 2025, and updated as required.

The Notice of Complete Application and the Date of the Statutory Public Meeting was published in The Record on January 16, 2025.

5.1 *What We Heard from the Public*

As of January 31, 2025, there were fifty-three visits to the Engage Waterloo page for Z-24-20. No comments were provided.

A resident whose property is located outside but adjacent to a PMTSA contacted Planning staff for clarification of the proposed amendment and expressed no concerns. No written comments were provided.

5.2 *Technical Review Agencies*

The Region of Waterloo advised that they had no concerns with the proposed amendment.

On January 16, 2025, the Grand River Conservation Authority advised they have no comments on this application.

No other agencies provided comments.

5.3 *City of Waterloo Departments/Divisions*

Financial Planning, on February 20, 2025, reviewed the report and confirmed that the timing of implementation of IZ does not impact the City of Waterloo budgeting or Development Charge by-law administration, therefore no concerns with the proposed amendment.

Engineering Services on January 21, 2025, advised that the timing of implementation of IZ does not impact Engineering Services, therefore no concerns with the proposed amendment.

No other departments or divisions provided comments.

5.4 Home Building Industry Consultation

Planning staff and our counterparts at the Municipalities met on multiple occasions with representatives from the development industry, including the Waterloo Region Home Builders' Association and Build Urban, most recently in October 2024. Discussions generally focused on the metrics associated with proformas, and potential impacts of IZ on developments moving forward. There was not consensus between all parties and discussions are on-going.

Following the October 17, 2024 meeting, a joint letter between the Waterloo Region Home Builders' Association and Build Urban was submitted, summarizing their concerns with the implementation of IZ at this time (see Appendix 'B').

As part of the formal circulation of Z-24-20, the Waterloo Region Home Builders' Association submitted a letter dated January 23, 2025, summarizing their concerns with the implementation of IZ at this time, and market challenges, supporting the proposed amendment to January 1, 2026 (see Appendix 'B').

5.5 If Not Now, Then When

In the review of Z-24-20, a reoccurring question arose: *If not now, then when?* In responding to this question, the following should be considered.

- When council adopted the Official Plan Amendment and approved the Zoning By-law Amendment to establish IZ, it was recognized that there would be further review and analysis of the market conditions before implementation, to avoid unintended consequences and to meet the intent of the Planning Act which requires an assessment report to analysis potential impacts of IZ on the housing market and the financial viability of development.
- Unlike other affordable housing initiatives, the implementation of IZ is dependent on private developers/builders proceeding with their market-based residential developments. If IZ exacerbates market conditions to the point of causing further delays to new development, no IZ units will be built.
- The current housing market is significantly challenged, as evidenced by:
 - the NBLC report findings.
 - development approvals not proceeding to building permits.
 - increased rate of financial defaults by developers/builders.
 - the decline in the issuance of building permits over time; and
 - many municipalities investigating measures to provide a stimulus to new housing development.
- IZ is one of many municipal initiatives supporting affordable housing and should be implemented when feasible.

- Additional building height and/or density may not provide significant incentive or stimulus to move projects forward, and height / density must be balanced against other planning objectives of the City of Waterloo.
- More time provides an opportunity to work with the industry to determine the metrics required to make IZ feasible for market-based residential developments.

In staff's opinion, the implementation date of March 31, 2025, should be extended to January 1, 2026, with further market assessment by NBLC in Fall 2025.

5.6 Next Steps

Given that Inclusionary Zoning is dependent on market based residential units proceeding to construction, and little development is proceeding to building permit applications due to the current market conditions, staff recommend that the IZ implementation date be deferred until January 1, 2026, and staff continue consultation with the Municipalities and the development industry on how to increase housing starts, including affordable housing. The intent is to implement IZ without stifling develop in PMTSAs. In staff's opinion, there is merit in having NBLC undertake an additional market assessment in Fall 2025, to better understand market conditions before the revised implementation date of January 1, 2026.

SECTION 6 - CONCLUSION

Zoning By-law Amendment Z-24-20, as recommended:

- is consistent with and in conformity with the applicable planning framework.
- maintains the IZ policies, regulations, and principles of the City of Waterloo.
- responds to current market conditions and the advice received by NBLC.
- is consistent with the City of Kitchener, to ensure alignment between municipalities.
- is minor in nature (9-month extension); and
- reduces risks related to unintended consequences, such as delaying new development in PMTSAs.

SECTION 7 - DRAFT PROPOSED ZONING BY-LAW

The following modifications to the existing Inclusionary Zoning regulations:

1. AMEND Section 3.1.2 c) so that it would read as follows:

*"Commencing on ~~March 31, 2025~~, **January 1, 2026**, on a LOT that is located within a MAJOR TRANSIT STATION AREA as identified on Schedule 'A2' of this BY-LAW, a percentage of GROSS LEASIBLE RESIDENTIAL FLOOR AREA shall be set aside for AFFORDABLE DWELLING UNITS in accordance with Table 3C-2, net any rental replacement DWELLING UNIT required under an applicable Rental Replacement By-law."*

The proposed modified date of implementation would align with the City of Kitchener (noting that their adopted but not approved Official Plan Amendment is subject to the review and approval by the Minister of Municipal Affairs and Housing). In staff's opinion, it is important that the implementation dates for IZ be the same, to avoid creating an incentive or disincentive to either municipality.

The proposed modified implementation date is reflective of changes to market conditions, and reflective of the analysis completed by NBLC.

While future market conditions are unknown, the additional time will provide for further consultation with the development industry to determine the measures/metrics required to make IZ feasible for market-based residential developments. This could include appropriate policy changes related to Phase 1B of the Official Plan Review (re: deferred properties).

2. AMEND the introduction to Section 3.1.2 e) so that it would read as follows:

"The maximum rent that shall be charged for Inclusionary Zoning AFFORDABLE DWELLING UNITS will be determined annually by the CITY ~~by by-law~~, in consultation with the REGION, and according to the following procedure."

This is considered a housekeeping / minor modification as it was not the intent nor was required that a by-law be passed to set the maximum rent for the upcoming year.

The maximum rent to be charged would be published and implemented through the operation agreements in coordination with the Region of Waterloo.

SECTION 8 - RECOMMENDATIONS

1. That Council approve report IPPW2025-014.
2. That Council approve Zoning By-law Amendment Z-24-20, Inclusionary Zoning within Protected Major Transit Stations Areas, City of Waterloo, as set out in Appendix 'A' of IPPW2025-014.
3. That Planning staff be directed to continue to consult with the City of Kitchener, the City of Cambridge, and the Region of Waterloo to evaluate the timing of implementation of Inclusionary Zoning.
4. That Planning Staff be directed to undertake an additional market assessment no later than September 30, 2025.
5. That Planning staff provide an update to Council no later than November 30, 2025, with the results of the consultation and the market assessment, and to provide recommendations on the timing of implementation of Inclusionary Zoning.

APPENDIX 'A'

IPPW2025-014

Proposed Zoning By-law Amendment

EXPLANATORY NOTE

By-law No. 2025 - _____

Inclusionary Zoning (Housekeeping Amendment)

Zoning By-law Amendment Z-24-20

The Corporation of the City of Waterloo

Council Meeting: March 3, 2025

IPPW2025-014

By-law 2018-050 is a Zoning By-law controlling land use development within the City of Waterloo. By-law 2025 - _____ amends By-law 2018-050 by amending two provisions related to: (1) the date of implementation; and (2) the process to determine the maximum rent charged, for Inclusionary Zoning within Major Transit Station Areas.

If you require further information or have any questions, please contact the City of Waterloo's Community Planning Division at 519-886-1550 X78258.

Prepared By:

Douglas W. Stewart, MCIP, RPP

Community Planning

Integrated Planning & Public Works

City of Waterloo

douglas.stewart@waterloo.ca



**THE CORPORATION OF THE
CITY OF WATERLOO**

BY-LAW NO. 2025 –

BY-LAW TO AMEND BY-LAW NO. 2018-050 BEING A ZONING BY-LAW
CONTROLLING LAND USE DEVELOPMENT WITHIN THE
CITY OF WATERLOO

INCLUSIONARY ZONING

WHEREAS:

1. Zoning By-law No. 2018-050 was passed by the Council of The Corporation of the City of Waterloo ("Council") on September 10, 2018, and is in full force and effect.
2. Council passed amending By-law No. 2024-058 on June 24, 2024, to establish Inclusionary Zoning ("IZ") regulations for Major Transit Station Areas in the City of Waterloo.
3. Council deems it desirable to further amend Zoning By-law No. 2018-050 in accordance with the provisions of this by-law.

**THEREFORE, THE MUNICIPAL COUNCIL OF THE CORPORATION OF THE
CITY OF WATERLOO ENACTS AS FOLLOWS:**

1. Section 3.1.2.c) of By-law No. 2018-050 is amended by deleting the date of implementation of "March 31, 2025" and replacing with "January 1, 2026".
2. Section 3.1.2.e) of By-law No. 2018-050 is amended by deleting the words 'by by-law' therein.

Enacted this _____ day of _____, 2025.

D. McCabe, Mayor

J. Finley-Swaren, City Clerk

APPENDIX 'B'

IPPW2025-014

INDUSTRY COMMENTS RECEIVED

1. October 23, 2024: Joint letter from Waterloo Region Home Builders' Association and Build Now, as follow up to a meeting with the Area Municipalities.
2. January 23, 2025: Letter from Waterloo Region Home Builders' Association in response to the circulation for Zoning By-law Amendment Z-24-20 for comments.

23 JANUARY 2025

Waterloo Region
Home Builders'
Association



RE: Inclusionary Zoning By-Law Amendment

City of Waterloo Zone Change

Application: Z-24-20

Wards 3, 4, 6 and 7

Electronic submission to:

City of Waterloo, Douglas Stewart, MCIP, RPP
Senior Policy Planner, Affordable Housing,
<douglas.stewart@waterloo.ca>

Dear Members of City of Waterloo Municipal Council,

I am writing on behalf of the **Waterloo Region Home Builders Association (WRHBA)**. Since 1946, we have served as the official voice of the new residential development and construction industry in the Waterloo Region. We are proud to be affiliated with both the Canadian and Ontario Home Builders' Associations.

WRHBA member companies contribute over 90 percent of the new housing stock in our region, supporting more than 22,000 well-paying jobs and representing an annual investment of over \$3 billion in the local economy.

We would like to express our support for the City of Waterloo staff's recommendation to amend By-law No. 2018-050 being a Zoning By-law controlling land use development within the City of Waterloo as it relates to two specific sections related to Inclusionary Zoning. Specifically, modify the date of when the Set Aside Rates are to be implemented from March 31, 2025, to January 1, 2026 (Section 3.1.2.c), and to delete that a by-law would be required to enforce maximum rent to be charged. (Section 3.1.2. e).

The WRHBA and its members have directly engaged with staff on this matter since 2019. In that time, there have been multiple consultations with Kitchener, Waterloo, Cambridge and Regional staff regarding the approach to Inclusionary Zoning (IZ) and impacts on the home building industry, housing affordability, and equity in the delivery of new homes to the market.

The last significant discussions took place in October 2024. We followed up and provided our perspectives to municipal staff and council in a joint letter with Build Urban. A copy of it is enclosed further below.

While the WRHBA fully supports more affordable housing, we continue to have concerns around the timing of the IZ framework. We remain steadfast in our position that that broader economic and market conditions have continued to deteriorate, as such, the WRHBA and its members feel that a pause on implementing IZ continues to be warranted and necessary. Simply put, the market needs to recover and stabilize prior to implementing additional policy that does not assist to increase housing starts.

In December, there were 556 condo units on the market, with only a 10% purchase rate. This situation calls for policies that incentivize this market segment rather than penalize it. While many focus solely on the financial bottom line, they often overlook an important factor: we have a critical partner in this process,

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WRHBA.COM

financial banking institutions. Developers must meet the bank's criteria, and lending institutions must meet federal lending laws.

The banks and their risk departments evaluate each project individually and require developers to achieve a certain percentage of sales, usually between 60-75%. They also expect developers to generate a specific profit margin from our net expenses. If our net expenses increase or our net revenues decline, the banks need assurance that the project remains solvent. And if they deem a project too risky, we won't receive funding, which means nothing gets built.

Our membership appreciates the opportunity to provide input to this important initiative, and we welcome the opportunity to continue to dialogue with municipal staff.

In conclusion, we hope that the Council will support the staff's well-formed research and recommendation to defer the implementation of this policy to allow time for the market to stabilize. We will continue to provide staff and yourselves with updates on our industry.

Sincerely,

WATERLOO REGION HOME BUILDERS' ASSOCIATION



Marie Schroeder,
Executive Officer

Cc: WRHBA Board of Directors
WRHBA Builder, Developer, Consultant Member Companies

Encl: WRHBA/Build Urban Joint Letter, dated 22 October 2024; RE: Inclusionary Zoning Policy Framework and Implementation



October 22, 2024

VIA: Electronic Submission

City of Kitchener
City of Waterloo
City of Cambridge
Region of Waterloo

Attention: Tim Donegani, Douglas Stewart, Matthew Blevins, Judy Maan Miedema

RE: INCLUSIONARY ZONING POLICY FRAMEWORK AND IMPLEMENTATION

To Whom It May Concern:

The Waterloo Region Home Builders Association (WRHBA) and Build Urban are writing to follow up on our meeting with our municipal policy leaders on October 17, 2024.

We respectfully request a deferral of the proposed Inclusionary Zoning (IZ) policy implementation until at least December 2025. Additionally, we suggest scheduling a meeting next year for an update before finalizing an official implementation date.

We recognize that the market environment was significantly different when this policy was first conceived, and there was potential for it to deliver affordable housing in Major Transit Station Areas (MTSAs). As an industry, we fundamentally agree that everyone deserves a place to live that they can afford. However, this is a broader societal issue that should not be solely imposed on a specific subset of the population, particularly those trying to enter the housing continuum.

As demonstrated in the NBLC report presented during our meeting, the fundamental economics of building high-density developments along MTSA are razor-thin. A single market alteration can render financial proformas unfeasible. With 556 units currently on the market and only a 10% purchase rate, it is clear that policies should incentivize this market segment rather than penalize it.

The WRHBA has previously opposed this policy for several reasons, including its potential to hinder growth, the inequity of applying it to those only a few steps up the housing continuum, and the significant fluctuations in market conditions that occur quarterly, or even monthly.

Broader societal issues contributing to this situation include Ontario's withdrawal from affordable housing initiatives three decades ago, the lingering economic impact of COVID-19, and the mismatch between housing supply and demand due to mass immigration and rigid planning policies.



We urge you to reconsider this policy with these factors in mind. At this moment, implementing a policy that does not achieve its intent—delivering affordable housing—seems premature. As one of your municipal planners aptly noted, "any percentage of 0 units is still 0 affordable units." By deferring the policy, we can explore solutions that address the concerns outlined above and develop a framework that aligns with both market realities and the community's broader needs.

We appreciate the time and effort that has gone into formulating this policy and to address our concerns. We remain committed to collaborating with our municipal partners to provide diverse housing options in a timely manner.

Respectfully submitted,
BUILD URBAN

WATERLOO REGION HOME BUILDERS' ASSOC.

Joseph Puopolo
Co, Chair, Build Urban

Executive Officer, WRHBA

Marie Schroeder,

CC: City Clerks Offices, Regional Clerks Office
WRHBA Board of Directors & Member Companies



October 23, 2024

City of Kitchener
City of Waterloo
City of Cambridge
Region of Waterloo

Attention: Tim Donegani, Douglas Stewart, Matthew Blevins, Judy Maan Miedema

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The WRHBA has previously opposed this policy for several reasons, including its potential to hinder growth, the inequity of applying it to those only a few steps up the housing continuum, and the significant fluctuations in market conditions that occur quarterly, or even monthly.



Broader societal issues contributing to this situation include Ontario's withdrawal from affordable housing initiatives three decades ago, the lingering economic impact of COVID-19, and the mismatch between housing supply and demand due to mass immigration and rigid planning policies.

We urge you to reconsider this policy with these factors in mind. At this moment, implementing a policy that does not achieve its intent—delivering affordable housing—seems premature. As one of your municipal planners aptly noted, "any percentage of 0 units is still 0 affordable units." By deferring the policy, we can explore solutions that address the concerns outlined above and develop a framework that aligns with both market realities and the community's broader needs.

We appreciate the time and effort that has gone into formulating this policy and to address our concerns. We remain committed to collaborating with our municipal partners to provide diverse housing options in a timely manner.

Respectfully submitted,

Joseph Puopolo
Co-chair, Build Urban

Marie Schroeder
Executive Officer, WRHBA

CC: City Clerks Offices, Regional Clerks Office
WRHBA Board of Directors & Member Companies

APPENDIX 'C'

IPPW2025-014

2024 RESIDENTIAL MARKET UPDATE

OCTOBER 2024

N. BARRY LYONS CONSULTANT

2024 Residential Market Update

*IZ policy review for Municipal Partners:
Kitchener, Waterloo & Cambridge*

NBLC

October 2024

Demographic Overview

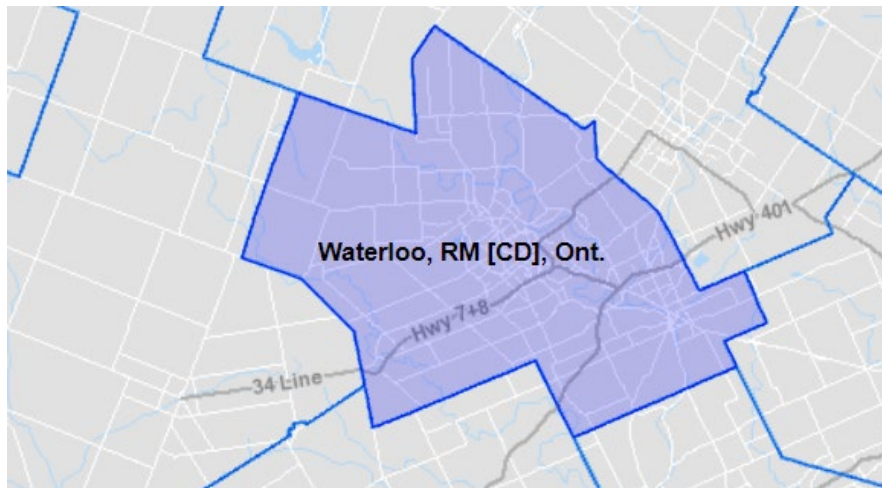
Kitchener-Waterloo-Cambridge

Demographics: Population Growth

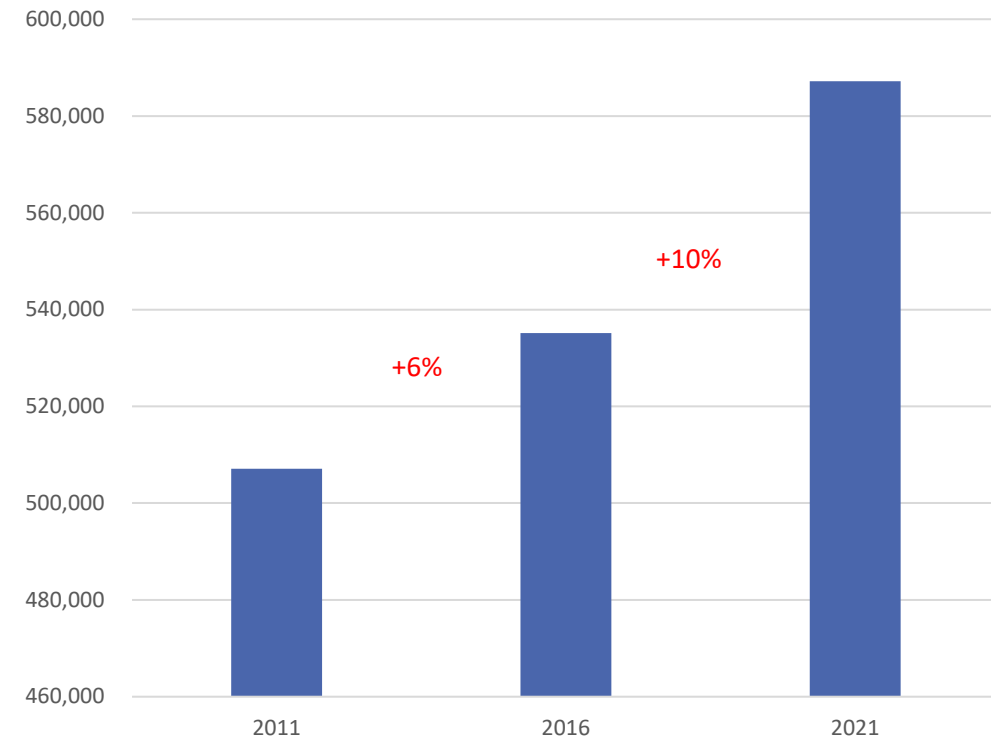
Rapid Population Growth in Recent Years

Strong Population Growth Recorded: Between the 2016 and 2021 Census Period, the population of the Waterloo Census Division (CD) rose 10% (52,000+ persons), well above the 4.6% growth rate in the City of Toronto and 5.8% in Ontario.

Why? Strong tech industry, proximity to Toronto, post-secondary institutions, and immigration fuel Kitchener-Waterloo's population growth.



Population Growth: Waterloo Census Division
2011 - 2021



Data source: Statistics Canada

Demographics: Population Growth

Non-Permanent Residents Driving Population Growth

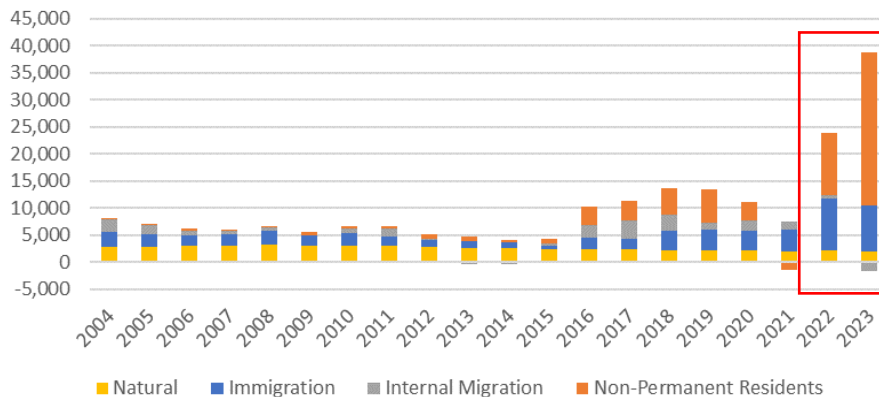
Population Growth Pre-COVID: The Waterloo CD population growth before 2020 was driven by immigration, internal migration, non-permanent residents (NPRs), and natural increase. Growth was significantly higher from 2016 to 2020 compared to the previous decade.

Impact of COVID-19: The pandemic caused a sharp decline in population growth in 2021, especially among non-permanent residents, largely due to the decrease in international post-secondary students.

Post-Pandemic Recovery: In 2023, the Waterloo CD saw record-high population growth, with 8,580 immigrants and 28,175 non-permanent residents, surpassing pre-COVID figures. Internal migration, however, fell below the 10-year average.

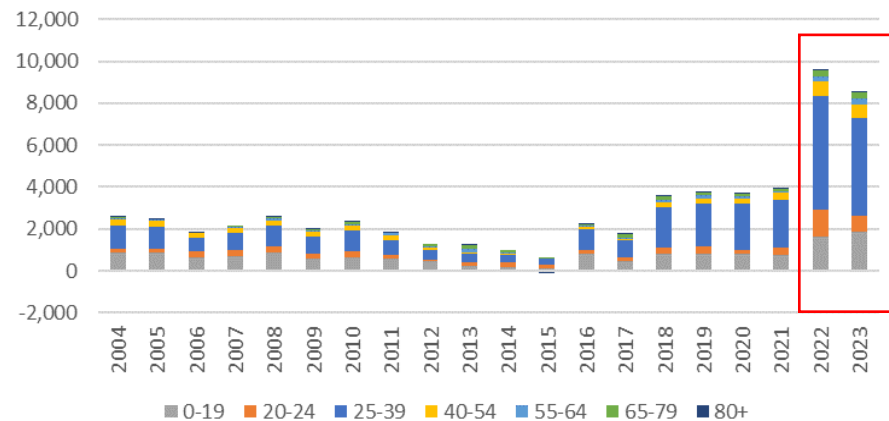
Changes to come: Notwithstanding this growth, very recent Federal announcements could have a meaningful impact on the trajectory of population growth in the near term. Canada's 2025–2027 Immigration Levels Plan is expected to result in a marginal population decline of 0.2% in both 2025 and 2026 before returning to a population growth of 0.8% in 2027.

Components of Population Growth
Waterloo Census Division: 2004 to 2023



Data source: Statistics Canada

Immigration by Age
Waterloo Census Division: 2003 to 2022



Data source: Statistics Canada

Residential Market Overview

Kitchener-Waterloo-Cambridge

Residential Market Overview

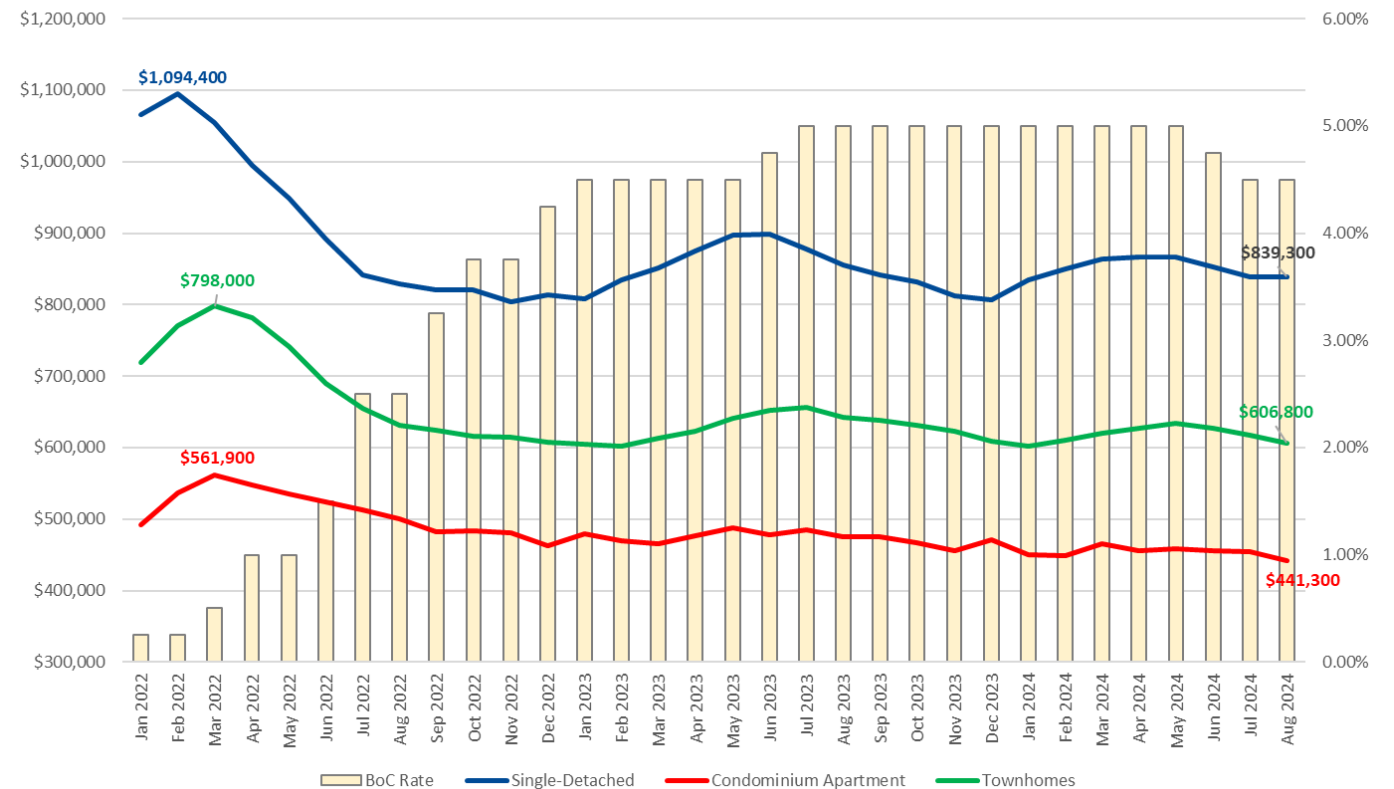
Interest Rates Had Substantive Impact on Demand

Impact of Interest Rate Hikes: The Bank of Canada raised interest rates seven times in 2022 and three times in 2023, leading to higher borrowing costs and a decline in housing prices in KWC—single-detached homes, condos, and townhomes fell by 27-30% between early 2022 and June 2024.

Effect on New Development: Higher interest rates (borrowing costs) and weaker new sale demand has eroded feasibility of new projects.

Recent Rate Reductions: The Bank of Canada lowered the overnight rate to 4.75% in June 2024, followed by another reduction in July and again in October. However, both the new and resale market have yet to recover and the timeline for a rebound remains uncertain.

Average Resale Housing Prices and BoC Overnight Lending Rate
Kitchener-Waterloo-Cambridge: Jan 2022 to June 2024



Data source: CREA, Bank of Canada

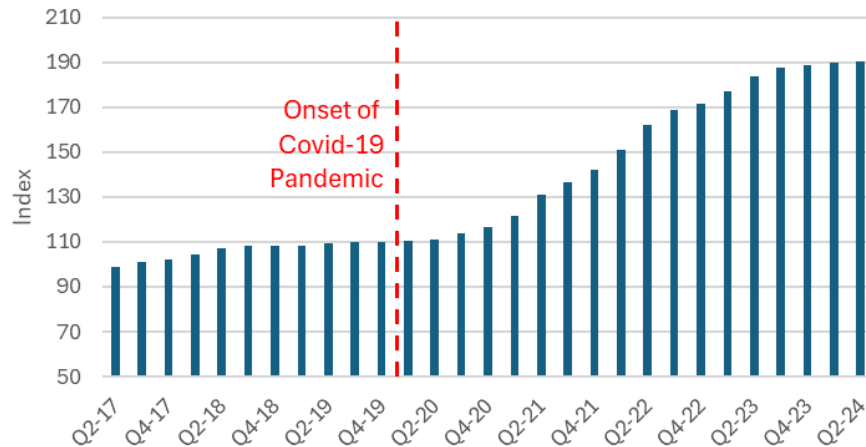
Residential Market Overview

Rising Construction Costs Across Ontario

Post-Pandemic Surge: After a period of relative stability, hard construction costs surged by 18% in 2021, 24% in 2022, and 13% in 2023, driven by supply chain disruptions, material costs, skilled labor shortages, and rising borrowing costs.

Broader Impact: Construction costs are 92% higher than in 2017, affecting housing development feasibility across Ontario, including KWC, with limited expectations for a return to pre-pandemic costs.

Residential Building Construction Price Index
Toronto CMA: Q2-2017 to Q2-2024



Data source: Statistics Canada



Apartment Market Context

Impacts of Rising Costs and Falling Demand

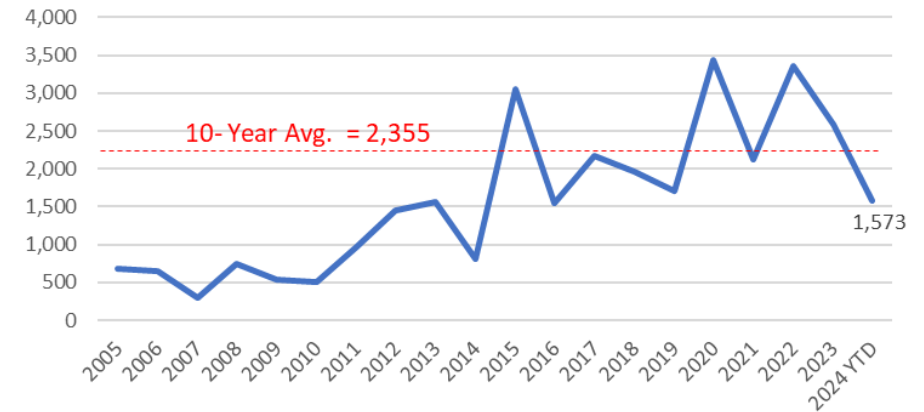
As of 2023, apartment starts began to trend downwards in KWC; largely a function of suppressed demand and broader economic challenges that have eroded development feasibility.

During 2023, there was a record high level of apartment completions for both condominium and rental tenure in KWC, totaling 2,171 condo completions and 1,397 rental completions. These completions have contributed to softness in the market, adding new supply and choice to both the private rental and resale market.

As construction starts decline, completions are expected to taper off in the coming years. Combined with anticipated population growth, this will present challenges for meeting demand in future years.

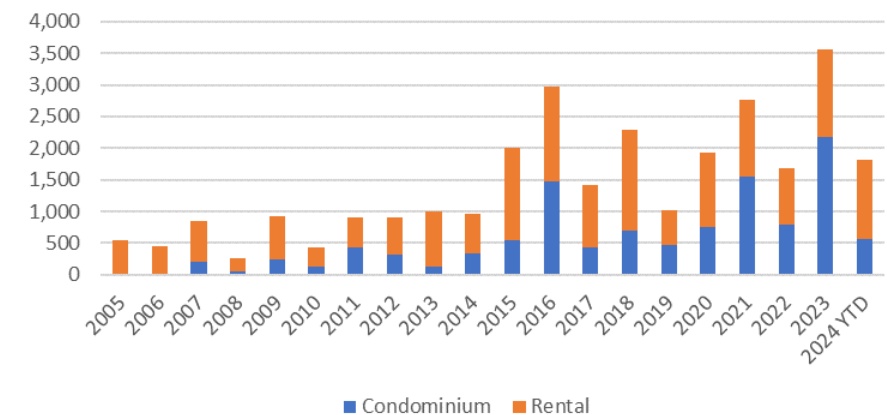
Historical Apartment Starts

KWC: 2004-2023



Apartment Completions by Tenure

KWC: 2004 to 2023



Data source: CMHC

Apartment Market Overview

Kitchener-Waterloo-Cambridge

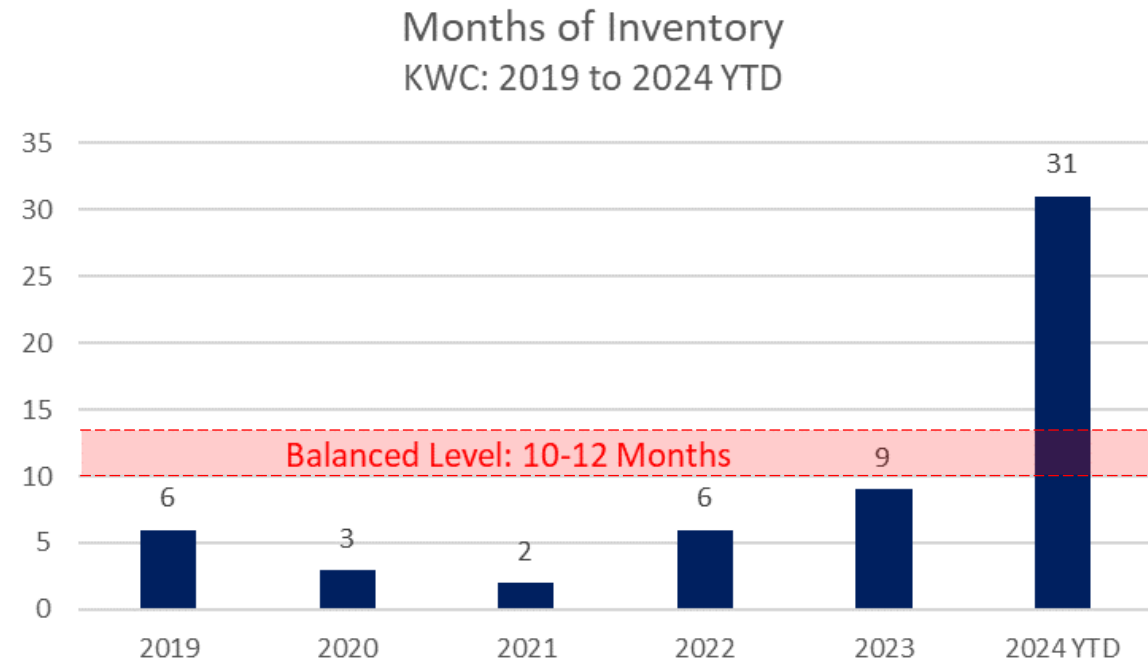
New Condominium Apartment Market

Sluggish Absorption in 2024

During the 12-month period to August 2024, the KWC market had just under 2,500 active unsold condominium units, representing 31 months of supply, about three times-higher than a balanced level of 10-12 months.

Between 2019 and 2023, the market generally had less than 10 months of unsold supply.

This significant increase in available units throughout pre-selling and recently completed projects with standing inventory highlights a major shift in market conditions.



Data source: Altus Data Studio

New Condominium Apartment Market

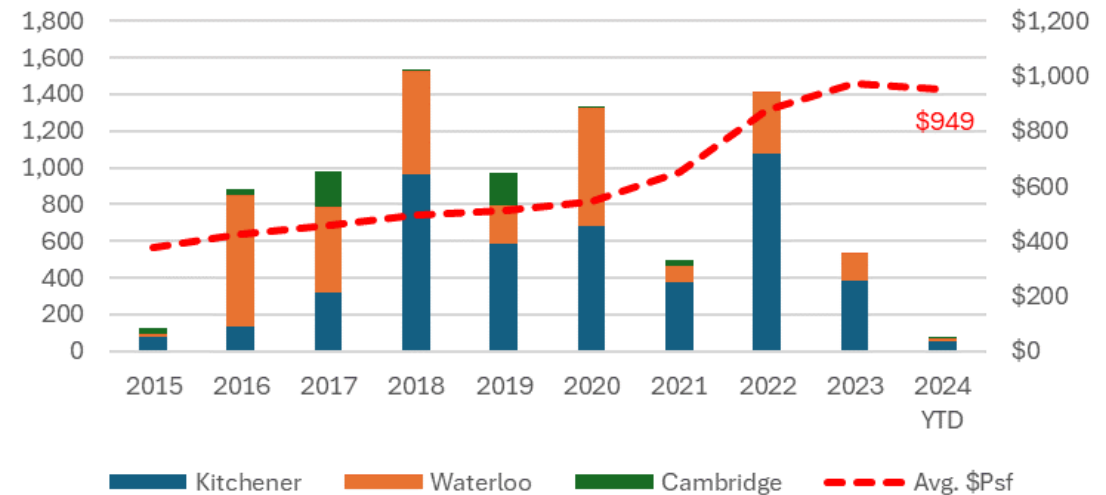
Soft Market Conditions in 2024

New condominium apartment sales in KWC have significantly declined since 2022, reflecting dampened demand and rising construction costs across the region. There were only 80 sales recorded during the first three quarters of 2024, down from 539 sales in 2023, and 1,412 in 2022.

The average price-per-square-foot (PSF) peaked in 2023, averaging \$973 psf, dropping to \$949 psf during 2024 YTD.

The pre-construction condominium market in KWC has been heavily reliant on investors, but rising purchase prices and carrying costs have made investment units less profitable. High purchase prices, interest rates and a glut of recent completions have put investors on the sidelines until market conditions improve.

Average Sales Vs Average PSF (\$)
KWC: 2015 to 2024 YTD



Data source: Altus Data Studio

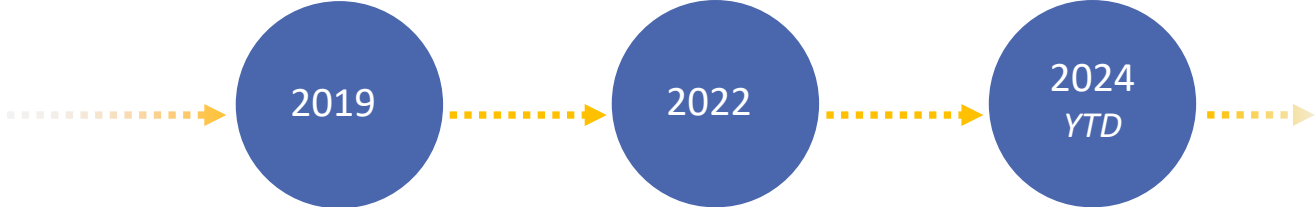
New Condominium Apartment Market

Spotlight on Condo Launch Activity

Despite average pricing trending upwards, there have been few new condominium project launches in 2024.

High initial pricing across 2024 project launches are not indicative of demand, as sales have been very slow. However, developers will be reluctant to adjust pricing for reasons related to financial viability and market confidence.

The prices being sought at recent launches reflect what is required from a pro forma standpoint to support a viable project. However, with 556 new units launched in 2024, only about 10% of these units have sold. This dynamic suggests that market demand is not currently available at pricing approaching \$1,000 per square foot.



	2019	2022	2024 YTD
New Launches:	11	10	2
Total Units:	1,327	2,241	556
% Sold:	100%	93%	~10%
Initial PSF(\$):	\$598	\$931	\$977

Data source: Altus Data Studio

Resale Condominium Apartment Market

Soft Market Conditions

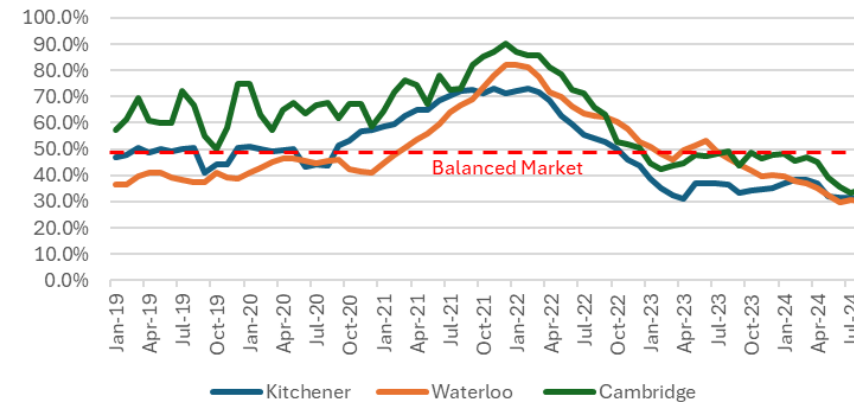
The resale apartment market in KWC peaked in early 2022, prior to monetary policy changes to curb persistent post-pandemic inflation. Following aggressive interest rate hikes, the resale market steadily declined throughout the summer of 2024.

During 2022, the average sales-to-new-listings ratio surged to 70-90%, but by July 2024, it had dropped to 30-40%, well below the balanced market threshold of 50%.

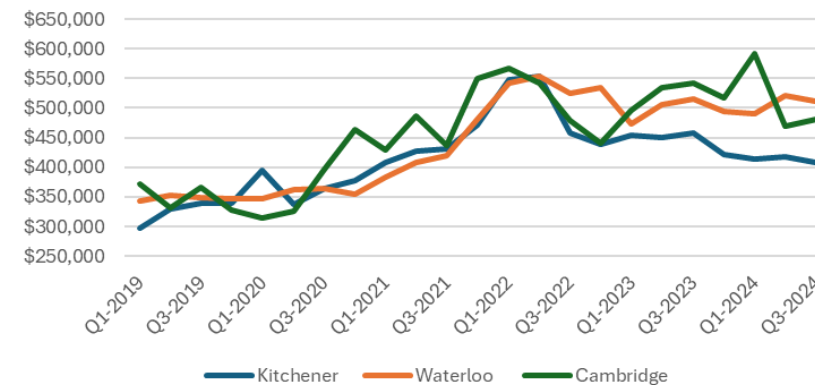
Average prices for resale apartments fell from a peak of approximately \$550,000 during Q1-2022, to \$467,000 during Q3-2024, representing a price decline of approximately 15%.

With a large number of recent new apartment completions and softness in the resale market, there is little incentive for prospective purchasers to consider a new pre-construction unit at pricing well above that of a recently constructed resale unit.

Historical Sales-To-New-Listings
KWC: 2019 to 2024 YTD



Avg. Resale Price for Condominium Apartments
KWC: Q1-2019 to Q3-2019

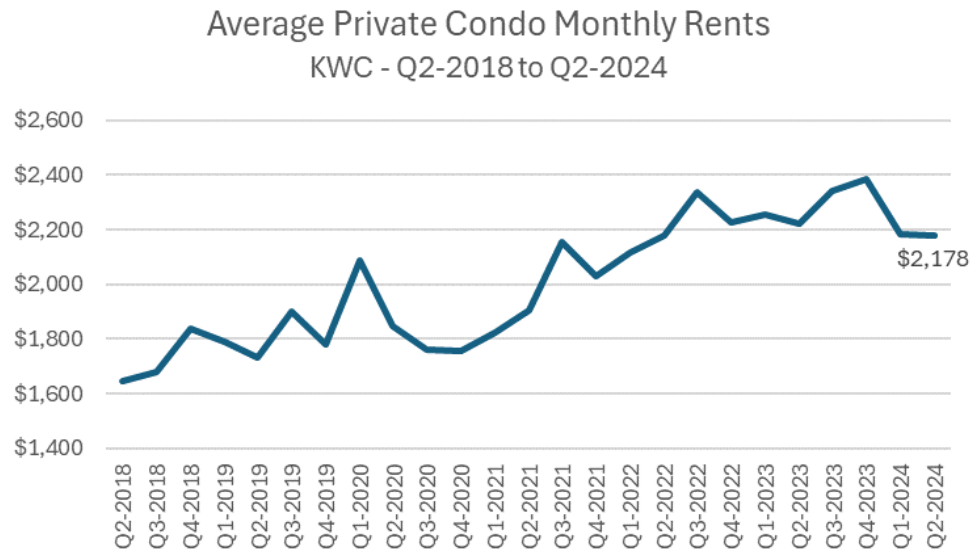


Data source: TRREB

Rental Apartment Market

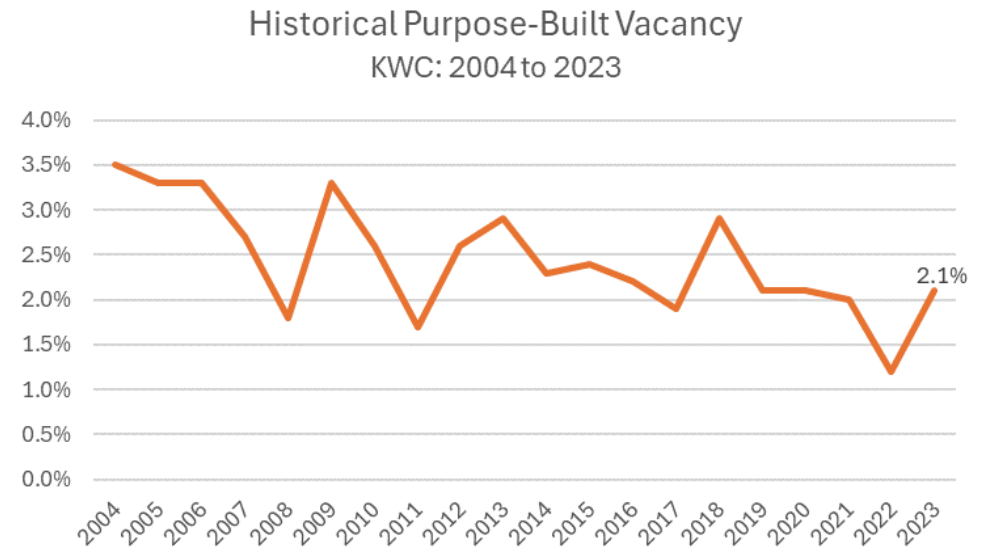
Average Rents Dampened in 2024

After hitting a peak in Q4-2023, average rents in KWC began to soften leading to Q2-2024. This softening was largely a function of record-high apartment completions during 2023 which increased supply coupled with weakened demand due to a decline in international student permits.



Data source: CMHC

The rental market has historically remained tight, with a vacancy rate generally below a balanced level of 3-5% between 2004 and 2023.



Data source: CMHC

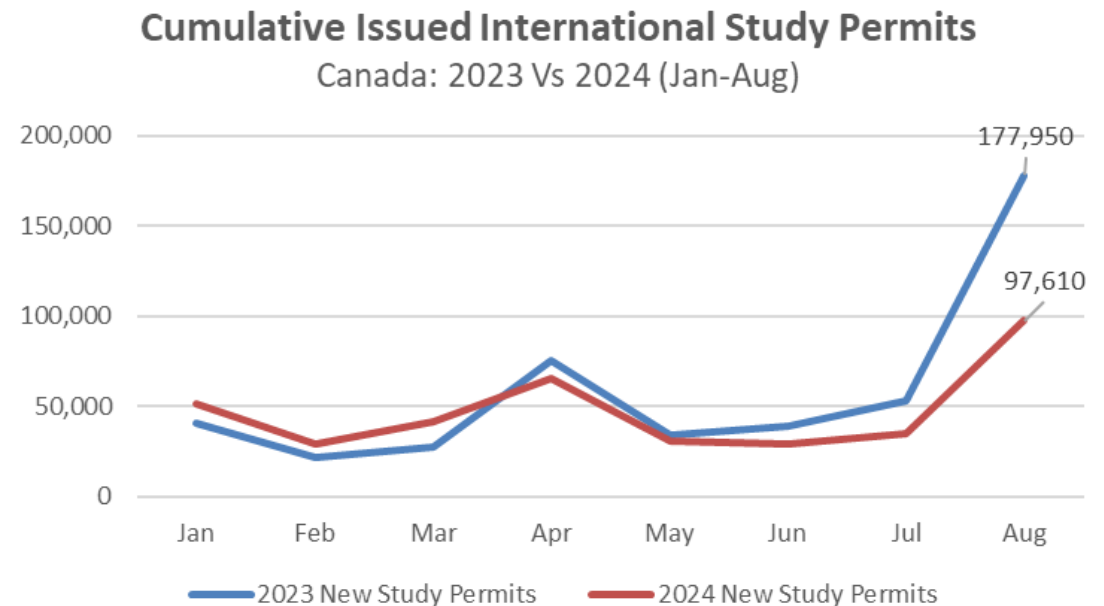
Rental Apartment Market

Recent Sharp Decline in International Study Permits

Recent data shows a significant decline in Canadian international study permits ahead of the September 2024 school year. By August 2024, total permits reached 97,610, a 45% decrease from 177,950 in the same period in 2023. This drop correlates with stricter financial requirements and government-imposed institutional capacity limits.

Effective January 1, 2024, study permit applicants were required to demonstrate they had \$20,635 in funds, in addition to covering their first year of tuition and travel costs. This was an increase from the previous threshold of \$10,000, which had remained unchanged since the early 2000s. The update aimed to better reflect the rising cost of living and prevent students from facing financial hardship upon arrival in Canada.

While the decline in international student permits may soften rental demand in the near term, KWC still faces tight rental market conditions. The region continues to experience population growth, low vacancy rates, and sustained demand from other tenant groups, such as young professionals and domestic students.



Data source: Statistics Canada

Land Transaction Activity

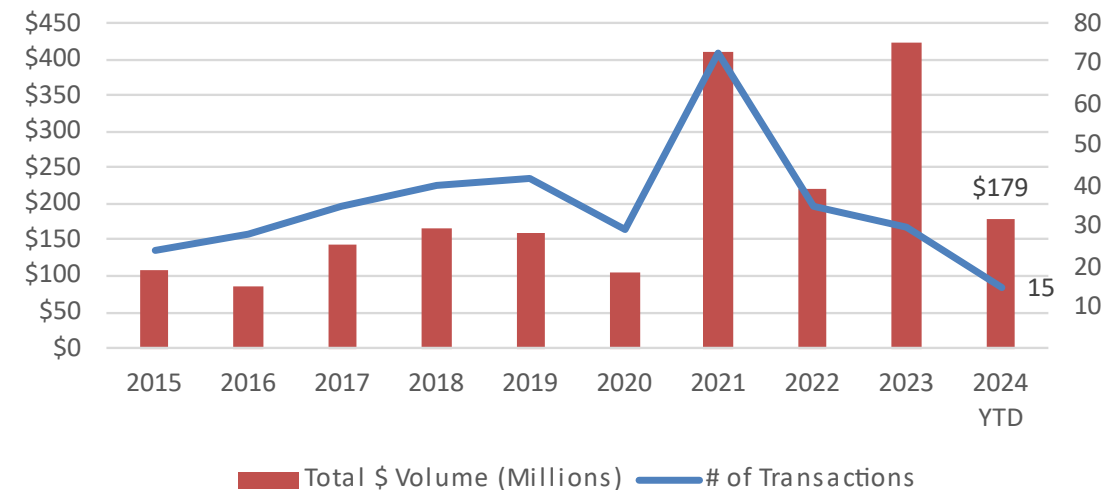
Residential Land Sale Activity Trending Downwards

The frequency of residential land transactions in Kitchener-Waterloo-Cambridge (KWC) peaked in 2021, with 73 transactions totaling \$410 million in sales volume. Since then, market softness has led to a reduction in overall investment within the market.

A general slowing in land acquisition activity speaks to overall market confidence and availability of investment capital to place in new apartment developments. Rising costs have constrained the feasibility of most new developments, making it more difficult to acquire land at the prices that vendors would have previously commanded. From a proforma perspective, the confluence of softening demand and rising construction costs has put downward pressure on land value.

Examining transactions occurring to date throughout 2024, the largest transactions by dollar volume have occurred in suburban locations away from the ION LRT corridor where IZ policies would not be a factor in future development plans.

Residential Land Transactions by Year
KWC: 2015 to 2024 YTD



Data source: Altus Data Studio

Summary & IZ Implications

Kitchener-Waterloo-Cambridge

Market Summary

Challenges Affecting Today's Apartment Market

Population Growth: Kitchener-Waterloo-Cambridge (KWC) has continued to see strong population growth, largely driven by non-permanent residents. Signals indicate that this growth could slow as a result of recent Federal policy announcements related to cuts and caps to permanent and non-permanent resident targets.

Development Feasibility: Rising interest rates and a 92% increase in construction costs since 2017 have significantly reduced the feasibility of new housing projects, leading to limited new launches and building permits in 2024.

Condominium Market Trends: New condo sales are sluggish, with only 10% of units released in 2024 sold – largely attributed to compressed demand. Relative affordability and choice in the resale market has eroded the attractiveness of purchasing in a pre-construction project.

Rental Market Outlook: Although vacancy rates remain low, rental price growth has been dampened by record-high completions in 2023 and a decrease in international student visas.



Considerations for IZ Implementation

The Economic Context has Shifted

NBLC's initial IZ assessment report was completed in 2019/20, a period in which the high-density market was strengthening on a year-over-year basis and market momentum demonstrated some capacity to absorb inclusionary housing without adversely impacting market rate supply.

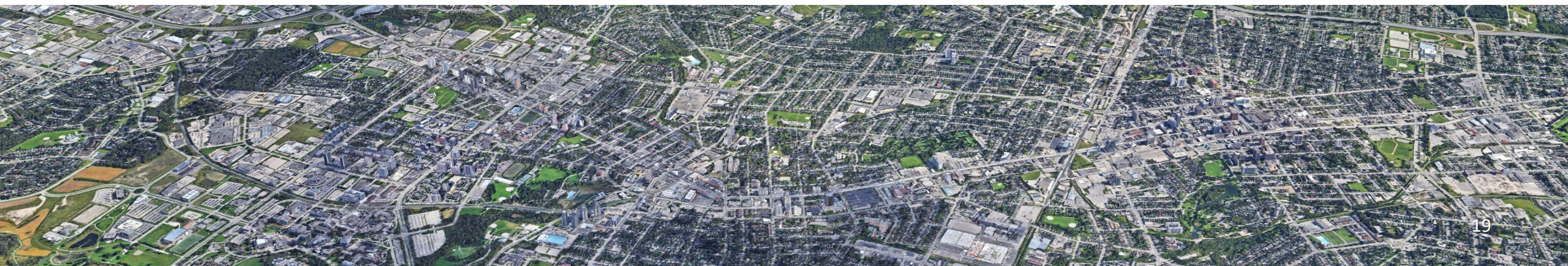
This 2024 review of market conditions demonstrates that across multiple key indicators, the market and economic context for investing in new high density residential development is markedly more challenging than it was five years prior.

Unless an IZ policy was coupled with offsetting measures, the policy – which at its core substitutes market revenue with a measure of affordability – would likely delay the recovery of transit-oriented sites

and exacerbate current challenges in delivering market-rate housing in these areas.

At present, there is no market rationale for reclassifying submarkets along the ION corridor given the overall dearth of actively marketing projects and land transaction activity. While the timing for market recovery is unknown, broader market fundamentals do suggest that there is likely to be a return to strength, over time.

For these reasons, we would not suggest that IZ policies be abandoned altogether. It also remains critical that market participants price IZ into their investment decisions.



Considerations for IZ Implementation

Reframing a Policy Response

A range of policy choices remain available to reframe IZ policies within the current economic environment. Generally, it is our view that the timeline for IZ's implementation should be extended until favorable market dynamics return to the region, unless offsetting measures are introduced in the near term to allow for improved project performance.

Given current market fundamentals, the granting of additional density will not be a powerful offset in the short term. We also understand the Partners have eliminated parking minimums and taken strong steps to improve development approval timelines. Offsetting measures would therefore require some form of financial incentive to offset the impact of providing affordable housing until market feasibility improves.

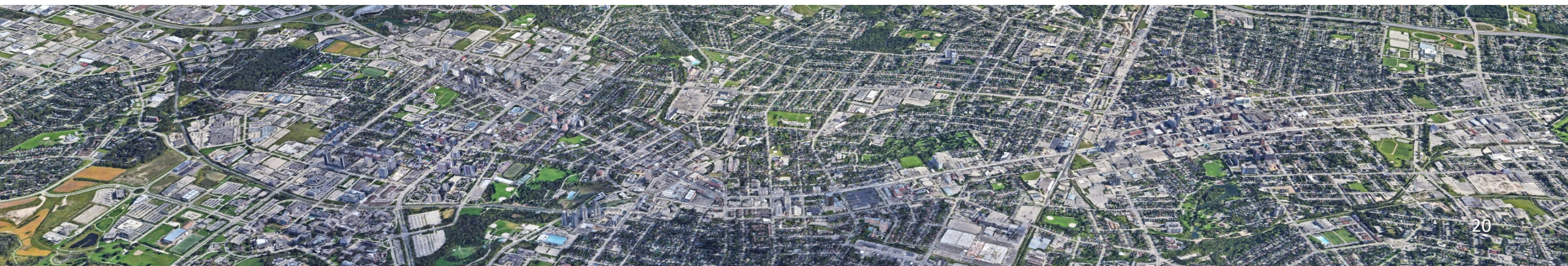
As the Partners look to reframe IZ policies and update supporting technical work, key high-density market indicators to monitor as part of policy planning include, among others:

- New pre-sales / pre-leasing activity
- Absorption rates and pricing
- Interest rates
- Construction costs

In monitoring market variables, it is important to note that these dynamics are interrelated. For instance, falling interest rates alone may not trigger a market rebound if hard construction costs remain elevated and population growth stagnates.

In general terms, we would look to see signals of returned market strength and viability throughout new market-rate projects in order to suggest that there might also be capacity to include below-market units.

After all, without economically viable market-rate developments, affordable units cannot not be delivered via an IZ policy.



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Disclaimer: The findings, conclusions and recommendations 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 document all factors or account for all changes that occur in the future and influence the viability of a real estate development project.

NBLC assumes no responsibility for losses sustained as a result of implementing any recommendation provided in this analysis. This analysis has been prepared for the purposes of preliminary review and is not to be relied upon or used for any other purposes, or by any other party, without prior written authorization from N. Barry Lyon Consultants Limited.