

Incentives for Private-Sector Affordable Housing Development

(City Council on November 23, 24 and 25, 1999, amended this Clause to provide that the report requested of the Commissioner of Community and Neighbourhood Services respecting tax incentives, as outlined in Recommendation No. (1) of the Community Services Committee, be first submitted to the Planning and Transportation Committee.)

The Community Services Committee recommends:

- (1) that the proposal by Councillor Tom Jakobek, referred to in his communication of October 12, 1999, be supported in principle; and that the Commissioner of Community and Neighbourhood Services, in consultation with the Chief Administrative Officer and the Chief Financial Officer and Treasurer, be requested to submit a more detailed report to the Community Services Committee and the Policy and Finance Committee in January 2000 on the matter of tax incentives, such as the model used for farm taxes in the Province of Ontario, and on the concept of affordable home ownership (condominiums);**
- (2) the adoption of the report dated October 20, 1999, from the Commissioner of Community and Neighbourhood Services;**
- (3) that the interdepartmental team proposed in the aforementioned report of the Commissioner of Community and Neighbourhood Services consider the advisability of establishing a public/private sector task force, comprised of representatives of the development and building industry, the City of Toronto, and other related experts or stakeholders, to develop, analyze and recommend potential Federal, Provincial and Municipal incentives for private sector production of affordable housing;**
- (4) that the interdepartmental team consider and report on the potential Federal and Provincial incentives, in addition to Municipal options to provide incentives for private sector production of affordable housing; and**
- (5) that related reports also be processed through the Community Services Committee, as well as the Planning and Transportation Committee, to ensure continuity with other homelessness and housing strategies.**

The Community Services Committee submits the following report (October 20, 1999) from the Commissioner of Community and Neighbourhood Services:

Purpose:

To outline next steps regarding ways to encourage private-sector affordable housing development, a matter raised by Councillor Jakobek in his letter of October 12, 1999.

Financial Implications and Impact Statement:

No financial implications at this time.

Recommendations:

It is recommended that:

- (1) the Commissioner of Urban Planning and Development Services and the Commissioner of Community and Neighbourhood Services report back to the January 2000 meetings of the Planning and Transportation Committee and the Community Services Committee, outlining an interdepartmental process to develop policies to encourage private-sector affordable housing development; and
- (2) the appropriate City officials be authorized and directed to take the necessary action to give effect thereto.

Background:

The November 4, 1999, Community Services Committee agenda includes correspondence from Councillor Jakobek on "Development of a Rental Housing Program". A related proposal from Councillor Moscoe has also been widely circulated.

This report identifies the work to be undertaken and the intended process for staff response on these matters.

Comments:

Council in July 1998 adopted a framework for creating affordable housing, involving measures such as property tax reductions, financial and funding tools, demonstration projects, Official Plan and land use tools, advocacy with senior governments, and other elements.

The proposals now being put forward by Councillors involve specific City incentives and/or requirements to get developers of market housing to provide housing which is affordable to low or moderate-income tenants.

Councillor Jakobek's proposal involves a waiver of property taxes for 15 years, and full waiver of PST, development charges, and permit fees for new rental developments. In return for this, the developer would be obliged to lease 20 percent of the units at 50 percent of the market rent rate, and there would be a "fast track" approval process for such projects.

Councillor Moscoe's proposal involves a bonus (5 percent or another level as appropriate) to permit additional units to be built in new residential developments; this might be on a voluntary or mandatory basis. In return, the developer would be obliged to turn those additional units over, free of charge, to a non-profit housing agency (which could include the Toronto Housing Company), and would be eligible for an income tax credit as a result.

The City has started implementing a strategy for affordable housing, building on the framework noted above and the recommendations of the Mayor's Homelessness Action Task Force. Some aspects of the strategy have been given ample attention while others, including incentives for the private sector, remain to be dealt with.

Housing Supply Activity:

Steps taken in 1999 in housing supply activity include:

- (a) an \$11 million Capital Revolving Fund, for which a Request for Expressions of Interest has just been issued;
- (b) a Mayor's Homelessness Initiative Reserve Fund for transitional housing and other community initiatives requiring capital;
- (c) a reduced property tax rate for new rental housing;
- (d) an exemption from development charges for non-profit rental housing; and
- (e) a "housing first" land policy.

Staff are advised that the Province will shortly make public the program rules for the related PST rebate it announced in March.

Broadening These Steps:

These tools will only produce housing on a small scale. Like Councillor Jakobek's proposals, the City initiatives underway are much influenced by US models. However, Toronto lacks the multi-million dollar annual federal and state capital support for housing received by any US city of comparable size.

To achieve results on a larger scale it will be necessary, as suggested in the Councillors' proposals, to engage the resources of the private sector and piggy-back on the large amount of development that it undertakes each year.

A Special Advisor - Housing Development has now been hired by the City. This role will be key in bringing about a broadened private-sector role. The mandate of this position is not only to be involved with not-for-profit housing but also to work toward alliances with the private development sector.

Official Plan Workplan:

Housing is a high priority in the City Planning Division workplan leading to the new Official Plan. This work will include examination of options to encourage provision of affordable housing by the private sector.

The proposals now being put forward by Council members involve some of the tools that must be looked at in that workplan. Intensive staff activity in 1999 focused on condominium conversion, second suites, and other matters. Staff can now make a priority of developing and bringing forward options in regard to incentives for affordable housing development.

Barriers and Issues:

Adequate analysis of the issues and options is needed before Council chooses a course of action on the proposed incentives. Issues and/or barriers include effectiveness of various tools, costs versus benefits, legislative powers of the City, and real and perceived effects on the viability of developments.

For example, in regard to property tax exemptions, Council will want to be satisfied that the benefits outweigh the costs and that the proposed incentives are likely to achieve the intended results. A solid case will have to be constructed that can persuade the Province to empower the City to provide such incentives, and that can withstand any challenges.

Likewise, there is a long history of experience with bonuses, incentives, and mandatory requirements in Toronto and in other cities. The feasibility of such tools has varied depending on prevailing economic conditions in the development industry and on the priority given to affordable housing vis-à-vis other concerns.

Some of the initiatives proposed by Council members would require provincial legislative changes. Property tax exemptions are a case in point. A major barrier to effective alliances with the private sector is the *Municipal Act* prohibition against “bonusing”, that is, the provision of benefits to private firms. For example, the City could not legally make a capital contribution that purchases a lower rent (of equivalent value to the contribution) from a private developer.

Next Steps:

The ideas being put forward by Council members involve both a housing program dimension and an Official Plan and regulatory dimension. The work will, therefore, be led by staff from the City Planning Division and the Shelter, Housing and Support Division. An interdepartmental team will be required to ensure adequate consideration of legal and financial issues as well as aspects - such as streamlining of approvals - that affect other departments.

As a first step, a joint report will be prepared, outlining the workplan for dealing with these issues. Given the subject matter, it should go to the Planning and Transportation Committee.

Conclusions:

Proposals from Councillor Jakobek and Councillor Moscoe pertaining to incentives for private-sector production of affordable housing are related to the City framework for affordable housing supply. Developing options regarding such incentives should now become a high priority in implementing the framework for affordable housing.

The ideas being put forward involve both a housing program dimension and an Official Plan and regulatory dimension. An interdepartmental team led by staff from the City Planning Division and the Shelter, Housing and Support Division will examine and bring forward options. A report outlining the proposed process will be prepared for the January 2000 meeting of the Planning and Transportation Committee.

This report was prepared in consultation with the Commissioner of Urban Planning and Development Services, who concurs with its recommendations.

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The Community Services Committee also submits the following communication (October 12, 1999) from Councillor Tom Jakobek, East Toronto:

Since the termination of the non-profit housing program in 1995, a number of developers in our City have been looking for opportunities to build rental housing. Over the last few years, many developers have developed pro-formas in respect to different development opportunities. Unfortunately, in each case, they have found that market rents have not been able to support the cost base in order to provide an acceptable return on investment. As a result, they have not been able to proceed with the development of any rental housing.

Both the government and development industry were hopeful that introduction of the Tenant Protection Act and changes to legislation regarding property taxes would provide the stimulus necessary for the private sector to build rental housing. It is clear, however, that these changes have not been enough for developers to proceed. It is also clear that if a developer were to proceed with rental housing, the most likely scenario would be to build high-end rental buildings in downtown Toronto where rents are approaching a level high enough to support an investment in rental housing.

Although the construction of high-end rental housing may ease the pressure on the entire rental stock, it will not in any way address the extreme shortage of affordable rental units in the market. New York City has a program designed at increasing the supply. Such a program would increase both the overall stock of rental housing while providing an affordable component within each new development.

Already one company has responded to this proposal with a commitment to proceed immediately with the development of up to 1,000 rental units on the following basis:

Incentives: New York Model

- (1) Property taxes on the new buildings will be waived for a period of fifteen years.
- (2) P.S.T. will not be assessed against any aspect of the project.
- (3) All development charges and permit fees will be waived in respect of the entire project.

The Obligations:

In return for the above package of incentives, the developer will be obliged to lease 20 percent of the units in each building at an average of 50 percent of the market rental rate for each type of unit.

In addition to the above package of incentives and obligations, I would also propose that a fast track approval process be implemented for this form of rental housing. This process, often referred to as the “one window” approach, will significantly reduce the significant costs associated with the current lengthy approvals process.

The Benefits:

Rental housing will be built, not only for those that can afford the highest rent levels in the marketplace, but also for those that could never otherwise afford to live in new rental buildings.

Mixed income communities will be built rather than segregating lower income individuals and families in “projects” that are 100 percent subsidized.

The spin-off economic benefits from construction of thousands of new units of rental housing will be enormous.

The following Members of Council appeared before the Community Services Committee in connection with the foregoing matter:

- Councillor Tom Jakobek, East Toronto; and
- Councillor Jack Layton, Don River.