

Appendix 3

Defining Affordable Ownership Housing: Housing Policy Review - City of Toronto's Official Plan

Summary Report

January 2015

Key Highlights of the Report

Reviewing the Existing Definition

- The City’s current definition for affordable ownership housing targets low and moderate income households, and is linked to the rental definition (e.g. based on the same carrying costs required average market rents)
- Different market dynamics in rental and ownership means the current definition results in low price points relative to current market values
- The City's housing policy framework is designed to target those areas of the City's housing spectrum not adequately provided for by the market to meet demand and to maintain diversity in the housing stock
- To date, there has been limited production of ownership housing that would be considered affordable under the City's current definition

There is a Range of Ownership Affordability Needs

- Ownership households with incomes between \$37,700 and \$76,600 (30th to 60th income percentiles) continue to experience affordability challenges
- While renter affordability issues are less pronounced above the 40th income percentile, ownership affordability issues are evident from the 30th to the 60th percentile which is a key transition point in the market for first time homebuyers.

Affordable Ownership by Income and Price (Composite Definition)			
Unit Type	Income %	Annual Household Income	Affordable Price Threshold*
Bachelor	30 th	\$37,700	\$158,000
One-bedroom	40 th	\$48,800	\$205,000
Two-bedroom	50 th	\$61,500	\$258,000
Three-bedroom	55 th	\$69,000	\$290,000
Four-bedroom	60 th	\$76,600	\$322,000

* Affordable price thresholds represent the cost of the unit to the purchaser, as determined by the City

Ownership Prices Vary by Unit Type

- Market research shows an array of units are being produced within this ownership affordability range, however these units are smaller in size and only affordable to household incomes at the higher-end of the range (50th and 60th income percentiles)
- Other definitions for affordable ownership housing (i.e. provincial) do not distinguish by unit type and do not necessarily target where there are gaps in the ownership market

Targeting Household Incomes

- The study recommends a new definition for affordable ownership housing based on household incomes (ability to pay) and identified gaps in the ownership market

What Does this Accomplish?

- The City's affordable ownership price thresholds would increase between \$18,000 and \$69,000 depending on unit type, bringing them closer to what is being produced by the

non-profit sector. For example, the price of a 2 bedroom unit would increase from roughly \$200,000 to \$258,000.

- The recommended approach serves the public interest by recognizing the diversity of need and that an adequate range and mix of affordable ownership housing be provided
- Targeting affordable ownership prices to household incomes that fall within the ownership affordability target range ensures that City policies and funding are directed to where they are needed

Matters of Implementation

The study identifies the following matters of implementation:

- Pursue measures to promote and maintain affordability of ownership units which may include: development of guidelines; establishment of resale mechanisms, and securing durable community benefits
- Determine the public benefit of providing affordable ownership units relative to other forms of affordable housing
- Explore supporting ownership housing at lower price points through the use of other City tools and programs
- Monitor household incomes, market pricing and production of affordable ownership units
- Consider the implications of including other related accommodation costs (e.g. condo fees, utilities, insurance and applicable taxes)

Summary Report

Housing is a fundamental cornerstone of any community. Providing a range of housing is critical to meeting the needs of all residents. Healthy and inclusive communities succeed in addressing these needs by helping provide a quality of life that creates environments in which individuals can thrive. The availability of affordable housing options is vital to building such communities, especially since some households do not have the financial ability to meet their needs in the traditional housing market.

Defining Affordable Housing in the City of Toronto Official Plan

Under the direction of the Planning Act and Provincial Policy Statement (PPS), the City of Toronto's Official Plan (OP) recognizes the importance of providing for a full range of housing in terms of form, tenure and affordability and sets out a housing policy framework to achieve this objective. Among other things, the City's OP defines housing affordability by setting price and rent thresholds for the implementation of the Official Plan's housing policies and consideration of possible benefits, where appropriate, under available planning tools such as Section 37.

The City's housing policy framework is designed to encourage the provision of a range of housing types. Through specific policies, use of available planning tools and other government funding sources, the aim is to target those areas of the City's housing spectrum not adequately provided for by the market to meet demand or maintain diversity in the housing stock. In further support of these objectives, affordable ownership housing has been designated as one of the eight strategic goals of the Housing Opportunities Toronto Affordable Housing Plan 2010-2020.

The current affordable rental and ownership definitions support affordability for low and moderate income households by linking the definition of affordability to average market rents by unit type. The intent of this approach was to identify affordable rents and house prices below what the market would otherwise charge for new units. By linking the City's affordable rental and affordable ownership definitions, the aim was to target tenants paying average market rents as potential first-time buyers. It is assumed that some form of assistance or inducement is needed to achieve the thresholds identified in the current OP definition.

Reviewing Existing Definitions

As part of the provincially mandated five-year review of its Official Plan, the City identified certain housing policies for review to help:

- i. Ensure that affordable housing policies can be implemented equitably across the City;
- ii. Update the policies to encourage new affordable housing; and,

- iii. Create a framework to encourage new affordable ownership housing.

The current affordable rental and ownership definitions support affordability for low and moderate income households. To achieve the identified rent or price points established by the existing definitions, planning tools (e.g. Section 37) have been used to assist developers in achieving lower price levels than the market attains on its own. The definitions were specifically designed on the assumption that contributions are required from developers, secured in the form of Section 37 community benefits, and in some cases, involve assistance from government. However, for various reasons, the ownership policies have been only modestly effective.

Despite the merits of the City's current approach, linking affordable ownership prices to affordable rents has proven challenging in addressing the ownership needs of low and moderate income households, given the growing differences between the ownership and rental housing markets. This is most evident when considering the rate of price increases for new ownership housing and the rising level of contributions required to serve the low and moderate incomes targeted by the current ownership definition.

In most instances, existing planning tools do not provide sufficient incentive to induce developers to produce affordable ownership housing units in significant volumes at the current defined price points. As a result, where the provision of affordable ownership housing is not a policy requirement under the OP (as in the development of larger sites), few units have been produced since the current affordable ownership definition has been in place.

Where new affordable housing has been secured as a negotiated Section 37 community benefit for a specific development, the number of affordable units rarely exceeded 10. A key challenge here has been balancing the provision of affordable housing benefits with other community benefits such as day care centres or for parks and recreation purposes sought on specific development applications.

Recent consultations with housing stakeholders identified a need to review the City's current definition for affordable ownership housing to improve its effectiveness in encouraging the provision of affordable ownership housing within the City's overall housing policy framework. The rising cost of ownership housing in the City, other ownership programs and initiatives provided by the City, and the need to balance these objectives with a range of housing needs were raised as matters for consideration by housing stakeholders.

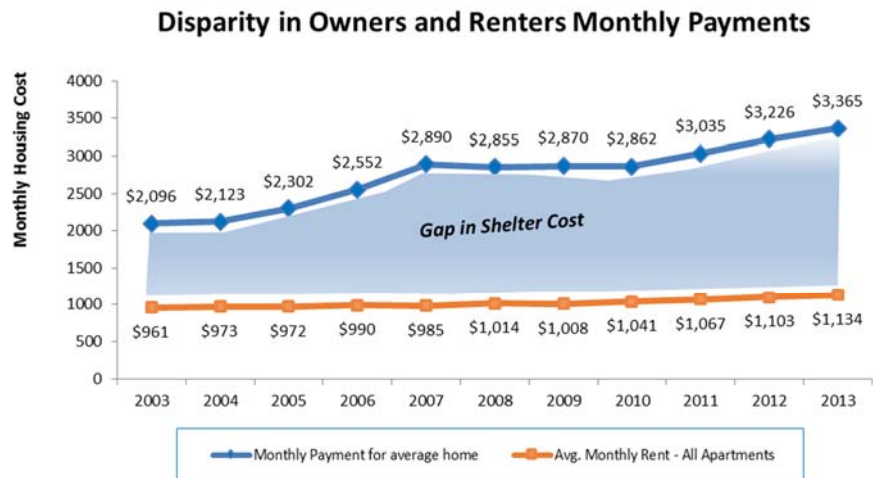
This Summary Report and the accompanying Background Report, *Defining Affordable Ownership Housing: Housing Policy Review - City of Toronto Official Plan*, focus on the City’s OP definition of affordable ownership housing as it relates to Provincial Policy Statement policies and other municipal housing programs, taking into consideration relevant definitions of affordable rental housing, as needed. The Background Report includes a comprehensive analysis of the Toronto housing market and socioeconomic trends, in so far as they pertain to housing affordability. Ultimately, four options were tested to arrive at a recommended approach to defining affordable ownership housing in the City of Toronto moving forward:

1. Status Quo – Existing Official Plan Definition and Possible Adjustments
2. Definition of Affordable Ownership Housing based on Market Prices
3. Definition of Affordable Ownership Housing based on Income
4. Definition of Affordable Ownership Housing based on Market and Income

The Toronto Market Context

Just over half of all housing in Toronto (55%) is ownership tenure and on average, owners tend to have higher incomes than their renter counterparts. Rental housing continues to provide a sizable and important share (45%) of housing options that are typically more affordable to those with low and moderate incomes.

In Toronto, socioeconomic trends indicate that incomes for high-income earners are growing at a faster rate as compared to low and moderate income earners. In the case of renters, incomes and rental increases have remained essentially on par with inflation over the past 10 years. While median owner incomes have increased in a similar



Source: Toronto Real Estate Board, Market Watch, 2003-2013; CMHC Rental Market Report: Toronto CMA, 2004-2013; SHS Calculations
 *Monthly payments include mortgage payments (calculated based on a 10% down payment, current year interest rates for a conventional mortgage and 25-year amortization period) and taxes.

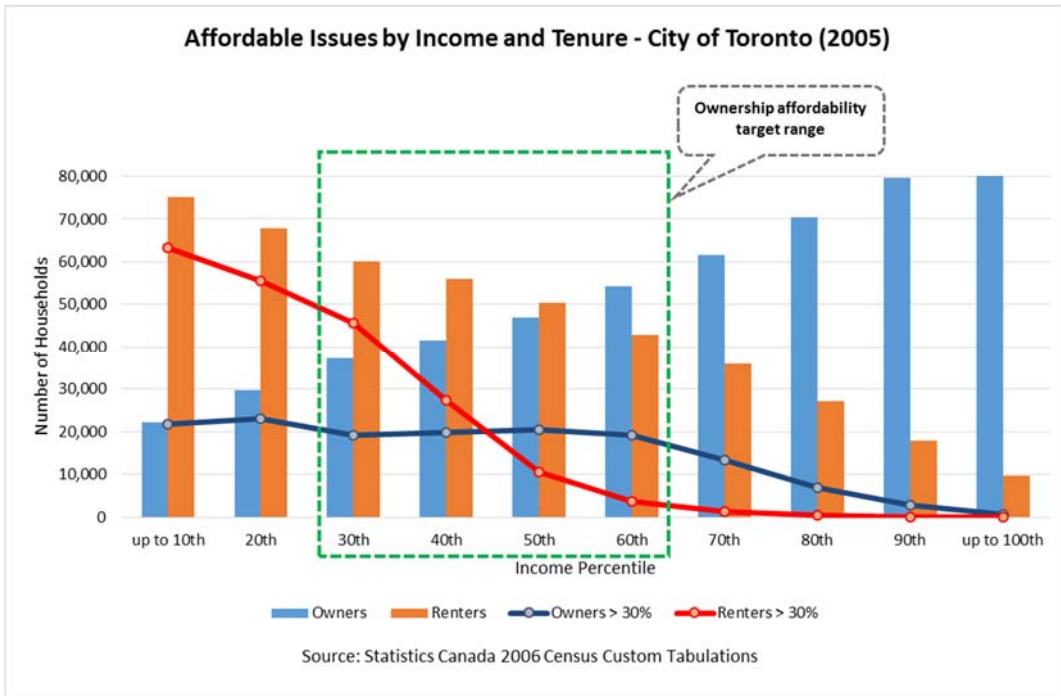
fashion, average ownership housing prices have risen dramatically, resulting in higher average carrying costs as shown in the figure above¹. Median incomes for all households rose by an estimated 16% from 2005 to 2013, while average resale prices increased by 56% during that same period. There continues to be a demand for rental and ownership housing that is affordable but affordability is clearly diminishing in the ownership market due to rapidly escalating prices.

The market analysis contained in the reports demonstrates that since the adoption of the Official Plan, the supply of high-rise condominium housing has continued to increase while the production of purpose-built rental housing has been minimal. However, demand for rental housing continues to be high as evidenced by sustained low vacancy rates and increasing investor activity in the rental condominium market. This investor activity has also pushed up demand for condominium units, resulting in upward pressure on ownership prices. While rented condominiums do help to offset sustained rental demand, they also present affordability challenges and issues with security of tenure. Trends also show that the affordability gap between the cost of owning and renting has been widening.

As illustrated in the figure below, shelter-to-income ratios (STIR) show that affordability issues are by far the most common below the mid-point of the income spectrum². As far up the income spectrum as the 40th percentile, over 48.3% of households were experiencing affordability issues. The proportion decreases to 31.8% for households between the 50th percentile and the 60th percentile, and drops off notably thereafter. Affordability problems for renters are most acute for low income households (i.e. below the 30th income percentile) so continuing to provide affordable, appropriate housing to this segment of the market is important. However, affordability issues also extend for renter households to just beyond the 40th percentile.

¹ It should be noted that data in this figure is provided to illustrate the relative difference in average shelter costs over time. Data utilized reflects different universes, data sources and methods of collection and as such, should be interpreted with due caution.

² 2005 STIR data at the percentile level was used as 2010 data was not available



For owners, affordability issues are most common up to the 60th percentile but are particularly noteworthy in the 45th to 60th percentile range. In this income band, the number of owner households with affordability issues consistently exceeds the number of renter households with similar issues. While these STIR characteristics are based on most recent available data (2005), newer income, tenure and affordability data has shown only modest change, suggesting that affordability issues by percentile are unlikely to have changed much since 2005, especially for owners.

This data signals sustained affordability issues for owner households in the moderate income range between the 30th and 60th percentiles. These households earn annual incomes between \$37,700 and \$76,600, and would be able to afford a home priced in the \$158,000 to \$322,000 range in 2013. From a policy perspective, targeting new ownership housing initiatives at households who fall within this income range would assist in improving affordability for both renters and owners. While there may be opportunities to provide new affordable ownership housing for households with incomes below the 40th percentile, these will require targeting smaller units (i.e. bachelors), more inducements to lower the costs or use of a model such as Habitat for Humanity’s where volunteer labour and fundraising facilitate the provision of affordable mortgage payments.

All definitions of affordable ownership housing included as part of this review were found to effectively target the low and/or moderate segments of the income continuum, but they do not

reflect market dynamics. Price increases have created more pronounced affordability problems for moderate income households, especially between the 30th and 60th percentiles. This is especially true of the City's OP ownership definition, which currently addresses the 26th to 49th income percentile range, depending on unit type. Analysis has shown that in constant dollars, the OP ownership definition has continued to address this same lower income range over time, notwithstanding the upward trending in average house prices.

Assessing Definitions: Rationale for Changing the Current Official Plan Definition

The four approaches identified earlier for defining affordable ownership housing fall into one of three main categories: income-based, market-based or composite. Each has its advantages and disadvantages. Definitions that share the same overall approach may still differ in terms of what is included in the specific calculations, and therefore produce different results. Inherent in each definition are certain assumptions and data limitations, which must also be considered when evaluating effectiveness.

Affordability has traditionally been determined using the 30% shelter-to-income ratio; where a household spends more than 30% of its income on housing, it is deemed to have an affordability problem³. Spending more than 30% of income on housing means that the ability to pay for other basic necessities, like food, clothing and transportation, is reduced. Low to moderate income earners are the primary targets of affordable housing policies and programs due to their higher incidence of affordability problems. Higher income earners with access to more disposable income have the ability to pay for housing that more than meets their needs and, therefore, do not experience affordability problems in the same way lower income households do.

The Provincial Policy Statement determines that the 60th percentile of the local income distribution should serve as a maximum income threshold in determining housing affordability. Households at or below this level are often categorized as low to moderate income. There is an added recognition that lower income households (i.e. those below the 30th income percentile) are less able to adequately sustain ownership tenure, given added carrying costs and that as a result, ownership policies and programs tend to more frequently target households with moderate incomes (i.e. 30th to 60th percentile).

³ Policy definitions have consistently used the 30% shelter-to-income ratio as a general measure of affordability which is assumed to include principal, interest and taxes (PIT) for ownership shelter costs. In the case of commercial lenders, they typically use a 32% shelter-to-income ratio for ownership shelter costs which includes PIT as well as heating (PITH). When considering household affordability, lenders may also incorporate other factors within shelter costs for tenures other than freehold (i.e. leasehold fees, condominium fees).

The current affordable ownership definitions used by the City and Province were also reviewed as part of this study within the context of market realities. The definitions assessed include those identified in the Provincial Policy Statement (PPS), City of Toronto Official Plan (OP), the Province's Investment in Affordable Housing Program (IAH) and the City of Toronto Home Ownership Assistance Program (HOAP). The table below provides a summary of housing type, affordable price and associated income thresholds (all households) for each definition as of 2013. It also provides average market prices for comparable types/forms of housing to help illustrate the relationship that each definition has with typical market pricing.

Affordable Ownership Definitions 2013	Affordable Price Threshold	Equivalent Income Percentile	Market Price Comparitors 2013	
IAH Program & City HOAP Program			\$ 1,635,339	New Single detached (CMHC)
IAH/HOAP price - Average resale price	\$ 564,639	82	\$ 1,281,735	New detached - freehold (RN)
PPS - Affordable Ownership Definition			\$ 704,593	New Semi-detached (RN)
PPS price level - 60th percentile (lesser of)	\$ 321,744	60	\$ 612,900	New link - freehold (RN)
			\$ 605,554	New Semi-detached (CMHC)
OP - Affordable Home Ownership Definition				
Four bedroom townhouse	\$ 253,070	49	\$ 986,789	New Townhouse - condo (RN)
			\$ 876,559	New 3+ Bedroom apt. (RN)
Three bedroom apartment	\$ 240,483	47	\$ 668,275	New 3+ Bedroom loft (RN)
			\$ 415,035	New 3 Bedroom apt. (AHO)
Three bedroom townhouse	\$ 240,483	47	\$ 411,617	New 3+ Bedroom stacked twhs. (RN)
			\$ 332,911	New 3 Bedroom twhs. (AHO)
Two bedroom townhouse	\$ 202,053	39	\$ 481,401	New Townhouse - freehold (RN)
			\$ 370,900	2 Bedroom stacked twhs. (RN)
			\$ 304,755	New 2 Bedroom twhs. (AHO)
Two bedroom apartment	\$ 200,375	39	\$ 490,778	New 2 Bedroom apt. (RN)
			\$ 472,010	New 2 Bedroom loft (RN)
			\$ 348,509	New 2 Bedroom apt. (AHO)
One bedroom apt/twhs.	\$ 169,496	32	\$ 324,914	New 1 Bedroom apt. (RN)
			\$ 321,830	New 1 Bedroom loft (RN)
			\$ 298,114	New 1 Bedroom twhs. (AHO)
			\$ 275,165	New 1 Bedroom apt. (AHO)
			\$ 252,972	1 Bedroom stacked twhs. (RN)
Bachelor apartment	\$ 140,967	26	\$ 273,529	New studio apt. (RN)
			\$ 249,558	New loft studio (RN)
			\$ 208,211	New bachelor (AHO)

Source: SHS calculations

Data sourcing: RN=RealNet Inc. AHO=Affordable Housing Office

There are a number of opportunities and challenges related to the current ownership definitions that emerged from the comparative analysis:

- The **current OP definition is below the identified ownership affordability target range**, more so than the other definitions. It addresses needs roughly between the 26th and 49th income percentile of all households. The higher end of this range is where there is a transition point between households switching from rental to ownership housing. The

analysis shows that rental households above the 40th percentile experience diminished affordability problems as compared to renters below this threshold.

- **Although the existing definition seeks to target households with lower incomes, the price points may not be achievable without a significant level of assistance.** This challenge is evidenced by the very small proportion of new housing units that are sold at or beneath the current OP definition thresholds.
- Analysis has shown that there is a **sizable gap between the affordable house price levels generated from the OP ownership definition and the available ownership housing options in the market.** This sizable gap makes it challenging to realize the policy objective of fostering more affordable ownership housing in the City without additional contributions over and above Section 37, such as loans, grants or capital funding programs.
- There are also **some gaps in the market as compared to the income ranges served by the PPS, IAH and HOAP affordable ownership definitions.** Only smaller new units (i.e. bachelor, one and some two bedroom units) are able to meet the income test of these thresholds using the ‘lesser of’ approach required by the definition. As a result, **these definitions treat expensive one bedroom units the same as modestly-priced two and three bedroom units.**
- Another challenge of the PPS, IAH and HOAP definition is that if households seek a higher maximum house price using a higher down payment, lower interest rate, or longer amortization, the **definition does not necessarily target an area of the income continuum where there is a gap in the ownership market.**
- The current affordable ownership and affordable rental definitions of the OP are closely related, as they are both based on average market rents. The basis for the PPS definition of affordable ownership and affordable rental housing differs and can be based on income and/or prices. The **PPS definitions are therefore more adaptable to differing affordability ranges for renters as compared to owners.**
- All of the definitions effectively target the lower and/or moderate areas of the income continuum. However, **not all adequately respond to changing house prices in the market, account for affordability by unit type or reflect the capacity of the market to deliver housing options that are affordable to target households.** The OP rental and OP ownership definitions, as currently defined, do overlap in terms of household income served but in doing so, blur the policy focus of the two definitions.

Factors Affecting Home Ownership Affordability and Definitions

In any calculation of affordability, one must consider which housing costs and factors ought to be included. All ownership definitions assume basic principal, interest and taxes as part of house price calculations. While most definitions do not depart from this approach, there is an ability to enhance household affordability by adding other cost components into this calculation. The effect of price ‘inclusions’ such as utilities, condominium fees and other carrying costs was assessed and found to reduce affordable house prices. While this would have the effect of pushing down prices to levels more affordable to lower income households, it would also widen the gap between affordability thresholds and available market options, especially if interest rates increase. The impact of incorporating housing form and geography variables within ownership definitions was also explored and, although they articulate affordability in a more finite way, it is recommended that targeted affordability objectives like this are better served through programs or initiatives rather than at the broader OP policy level.

The Recommended Affordable Ownership Definition

The City's existing approach to defining affordable ownership, linking affordable ownership to affordable rental housing, is unlike approaches used by other municipalities to implement the Province's policy objectives. In undertaking a review of the current affordable ownership definition, there was a desire to come up with a definition that more closely aligns with the approach used by the Province and senior government programs, where definitions for affordability consider household incomes for both owners and renters. This methodology facilitated comparisons between the different definitions.

Ultimately, the analysis identifies that current definitions of affordable ownership housing often do not account for the range of moderate income households that are experiencing affordability challenges in the City of Toronto. This “ownership affordability target range” ought to be addressed as a primary objective through any new approach taken to defining affordable ownership housing in the City of Toronto. Renter households are currently served by renter affordability policies of the Official Plan, and this ownership approach would better distinguish how owner options can be pursued to address the economic realities of these moderate income households.

A series of principles were established through the study process and vetted with key stakeholders. These principles were then used to evaluate the ‘fit’ of the four definitional approaches, recognizing that the ideal definition needed to:

- Support public policy for overall housing mix/range
- Be consistent with provincial and city policy frameworks

- Be clear to public, stakeholders, decision-makers and City staff
- Reflect variations in unit types and sizes/households
- Be relevant to current initiatives
- Be flexible within changing markets/conditions
- Secure affordability and be targeted to the ownership affordability gap
- Facilitate creation of additional affordable units
- Be easy to implement, monitor and update

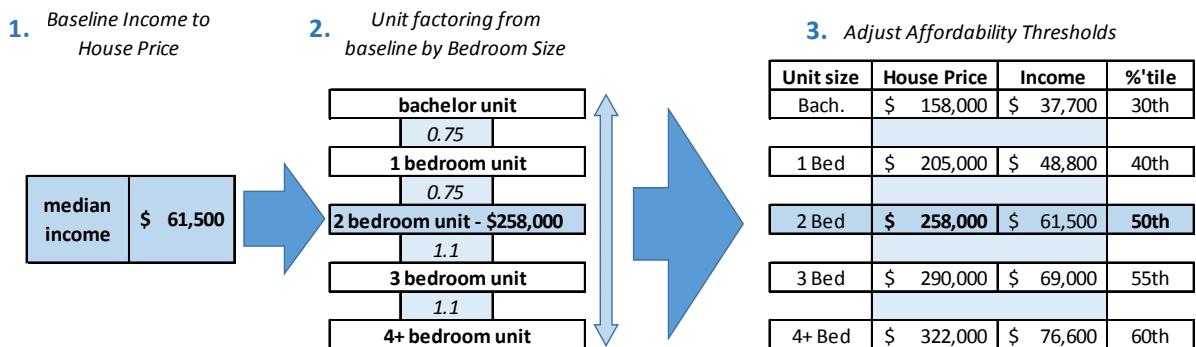
While each of the four options examined would support the objectives of an updated OP and align with broader policy frameworks, it is recommended that the City adopt a composite approach to defining affordable ownership housing using both income and market pricing. This option provides a balance of income and market factors, enabling it to more effectively address the ownership affordability target range and respond to income or market changes over time.

Under this definition, three basic steps are required to arrive at affordable house prices:

- Step 1 – Baseline the median income and translate to an affordable house price
- Step 2 – Apply unit size factoring to arrive at preliminary house prices by unit type
- Step 3 – Adjust the affordable house price thresholds and test market ‘fit’

This process is illustrated in the following figure.

Generating Affordable House Price: The Composite approach (using benchmarked pricing)



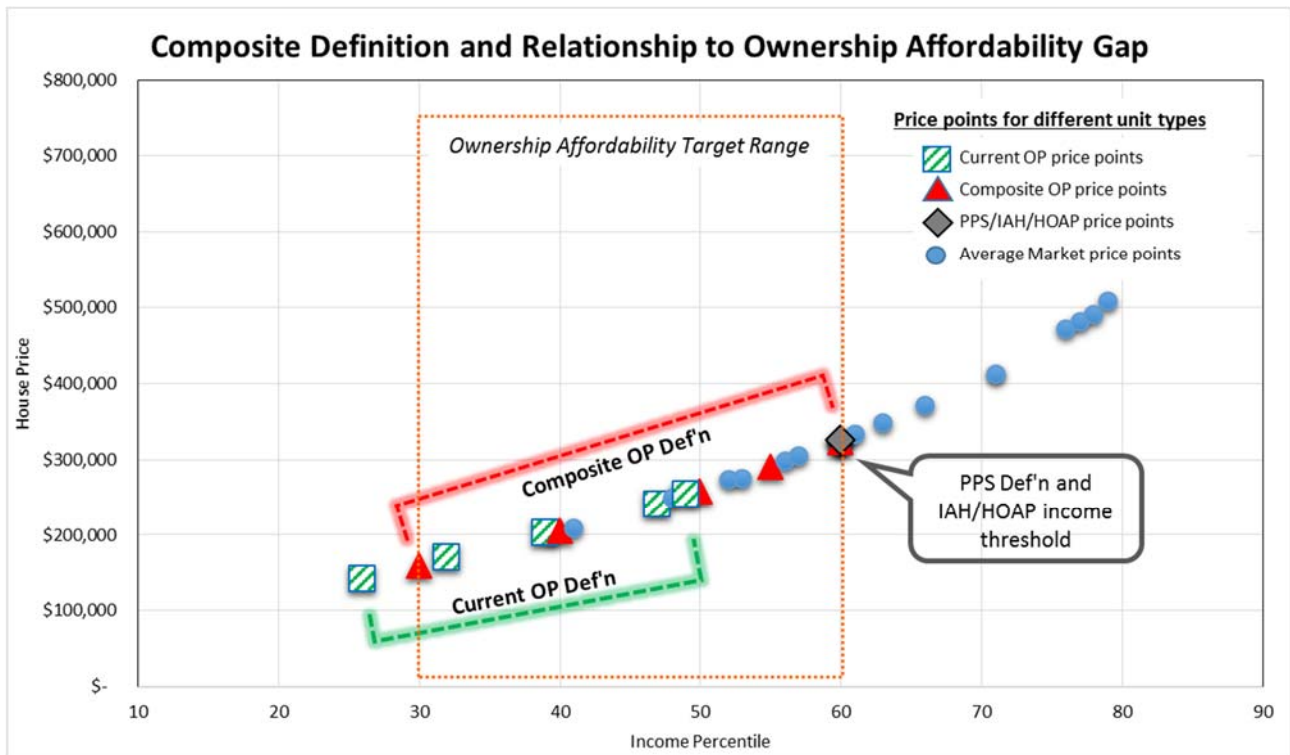
Source: Re/fact Consulting calculations

To establish affordability thresholds in successive years, income thresholds for each unit size would be escalated annually using a standard, transparent index and associated affordable house prices would be re-calculated. This would provide a consistent and predictable method for generating annually updated price thresholds. No later than the first 5 year interval, the base income, unit factoring and adjustment process would need to be reviewed and updated in

order to ensure changing market conditions were suitably reflected in updated price thresholds for the subsequent 5 year period.

Why Change the Definition?

The composite definition is similar to the definition used by the Province in the Provincial Policy Statement in that it considers income and market factors to determine affordability thresholds. However, as shown in the figure below, the composite definition provides a more encompassing affordability range (i.e. 30th to 60th income percentile) which responds to the local needs and realities in terms of unit types. The composite definition also identifies income and house price levels that are higher than the current Official Plan definition.



To help situate the plotted price points in the above chart, the following table is provided, showing affordable house prices by unit type for current, composite and other affordable ownership definitions:

Affordable Price Thresholds

Unit Type	Current OP Definition	Composite OP Definition	IAH, HOAP, PPS Definitions*
Bachelor	\$ 140,967	\$ 158,000	\$321,744
1 Bedroom	\$ 169,496	\$ 205,000	
2 Bedroom	\$ 200,375	\$ 258,000	
3 Bedroom	\$ 240,483	\$ 290,000	
2 Bedroom TH	\$ 202,053	\$ 258,000	
3 Bedroom TH	\$ 240,483	\$ 290,000	
4 Bedroom TH	\$ 253,070	\$ 322,000	

**definition as derived by income*

The composite definition targets the moderate income range, identified in the analysis as the ownership affordability target range (30th to 60th income percentiles). This is in contrast to the lower income range generated through the current OP definition (26th to 49th income percentiles) which is based on average market rents by type. Using the moderate income range targets affordability among households with incomes that can more realistically aspire to ownership in Toronto’s expensive real estate market. Given the rising cost of ownership housing in the City, it is assumed that in targeting income groups below Provincial thresholds, the proposed definition will continue to target existing rental households, and as such first-time buyers.

The composite definition is preferred because:

- It uses household income levels in the ownership market to provide a more realistic benchmark for setting affordable ownership housing policy
- It focuses on the median income as a baseline and addresses the ownership affordability target range between the 30th and 60th income percentiles
- It continues to recognize that housing type promotes a range of ownership affordability
- It incorporates market testing to help situate affordability with regard for market prices
- It encourages consistency with the PPS in its approach to considering both income and market factors in defining ownership affordability
- It meets the study objectives established by the City
- It aligns with definitional principles established with stakeholders

In terms of policy, the proposed affordable ownership definition could be structured as follows:

Affordable ownership housing is defined as:

- 1) Housing for which the purchase price is at or below an amount where the total monthly shelter cost* does not exceed 30 percent of gross annual income for households within

the moderate income range, defined as the 30th to 60th income percentiles, depending on unit size. More specifically:

- bachelor units must be affordable to households with incomes no higher than the 30th percentile;
- one bedroom units must be affordable to households with incomes no higher than the 40th percentile;
- two bedroom units must be affordable to households with incomes no higher than the 50th percentile;
- three bedroom units must be affordable to households with incomes no higher than the 55th percentile; and,
- four bedroom units must be affordable to households with incomes no higher than the 60th income percentile.

** i.e. mortgage, principal, and interest --- based on a 25-year amortization, 10% down payment, and the chartered bank administered mortgage rate for a conventional 5-year mortgage as reported by the Bank of Canada at the time of application --- plus property taxes calculated on a monthly basis.*

The Effect of the Proposed Affordable Ownership Definition

The proposed approach to the City's OP definition for affordable ownership housing continues to target those income groups not as well served by the market and existing funding programs. The approach also supports the City's policy framework which continues to focus on balancing need across the City's housing continuum. As shown in the table below, for a two bedroom apartment unit, the current definition targets households with incomes of \$47,760 or the 39th income percentile. The proposed approach to the affordable ownership definition targets households with incomes of \$61,500 or the 50th income percentile.

Comparison of Current and Proposed OP Definitions

Unit Type	Current Definition			Proposed Approach		
	Affordable Price Threshold*	Associated Income Threshold	Income %'tile	Affordable Price Threshold*	Associated Income Threshold	Income %'tile
Bachelor	\$ 140,967	\$ 33,600	26th	\$ 158,000	\$ 37,700	30th
1 Bedroom	\$ 169,496	\$ 40,400	32nd	\$ 205,000	\$ 48,800	40th
2 Bedroom	\$ 200,375	\$ 47,760	39th	\$ 258,000	\$ 61,500	50th
3 Bedroom	\$ 240,483	\$ 57,320	47th	\$ 290,000	\$ 69,000	55th
2 Bedroom TH	\$ 202,053	\$ 48,160	39th	\$ 258,000	\$ 61,500	50th
3 Bedroom TH	\$ 240,483	\$ 57,320	47th	\$ 290,000	\$ 69,000	55th
4 Bedroom TH	\$ 253,070	\$ 60,320	49th	\$ 322,000	\$ 76,600	60th
<i>Reflects rent-based prices per current City OP definition</i>			<i>Reflects income-based prices per proposed composite definition</i>			

* The affordable price thresholds represent the cost of the unit to the purchaser, as determined by the City

The proposed approach also continues to promote affordability by unit type. For example, the affordable price of a one bedroom unit is \$205,000 and would be affordable to a household at the 40th income percentile. This approach recognizes that the cost and related affordability varies by housing size, ensuring that where available, the use of planning incentives are linked to relative need. This targeting approach helps to ensure the effective use of public inducements in exchange for public benefits – in this case, affordable housing.

Caveats to the Proposed Definition

Among other matters, the study identifies a number of possible inclusions for calculating ownership affordability. These include but are not limited to heat, condo fees and mandatory costs. Whether or not these costs are ultimately calculated within the City's definition, they reflect additional costs that would be borne by the homeowner. To ensure the ongoing affordability of any ownership housing units, the income and ability of the household to carry these costs needs to be considered in determining who should be targeted by the City's policies. When considering how best to implement a revised definition, policy staff may also wish to consider other factors such as whether a minimum unit size (i.e. floor area) would be appropriate to help encourage a full range of unit sizes that are affordable.

Market data issues were an impediment in the analysis process, especially in the case of the market-based and composite definitions. No single data source provides the level of detail or historical context necessary to fully characterize market pricing by unit type. Having more robust data to define the thresholds at which the market is unable or unwilling to provide units would help improve the precision of the proposed definition. An alternate approach was also tested which benchmarked affordable ownership to Toronto Real Estate Board (TREB) median

resale prices. While this can provide a reasonable alternative to generating affordable prices on the market side, this resale market data does not identify units by type (and specifically number of bedrooms). It would be more suitable to source robust price data for new ownership units by type.

Deeper Levels of Affordability

The market analysis has demonstrated that the moderate income range is where the affordable ownership gap exists. Through consultations on this matter, non-profit housing providers have expressed concerns about the ability of lower income groups to afford the additional carrying costs of ownership units, including but not limited to, utilities, maintenance fees, and other mandatory purchasing costs without additional assistance. In addition, based on a review of the current housing market in Toronto, the City's main planning tool at present for securing affordable housing (Section 37) provides limited inducements for developers to produce new ownership units at prices that are affordable to the lower income groups currently targeted by the definition.

It is important to note that the proposed definition does not preclude targeting households at lower income percentiles. For example, Habitat for Humanity's model which incorporates sweat equity, gifts-in-kind and significant cash donations as well as HOAP funding, targets households with incomes between approximately the 25th and 50th percentiles. However, deeper affordability would generally require more incentives or inducements on a per unit basis. Under current rental policy, the City allows for tiered incentives in exchange for deeper affordability. Should other programs and/or incentives for ownership housing become available, the City could consider targeting households with deeper affordability needs in a similar fashion using programs or tools.

Matters of Implementation

The adoption of the preferred composite definition would represent a shift in affordable ownership policy for the City. It would also mean:

- An upward shift in affordable price thresholds that would better reflect market price realities while still targeting the ownership affordability gap
- The ability to serve a broader constituency of potential owners due to a wider range of affordable price thresholds
- Greater potential for participation from both non-profit and possibly private development interests who may contemplate Section 37 planning incentives to develop housing that is affordable
- A clearer distinction in policy objectives between renters and owners

In implementing a new composite approach, a number of considerations must be made. The City would need to develop, monitor and maintain the requisite data sets, mindful of the issues the study has pointed out in terms of data sources. It would also be important for staff to undertake a formal evaluation within the five-year review horizon to assess the effectiveness of the policy shift. This evaluation would also contribute important market insights to determine if changes in base income, unit factoring and adjustment processes are warranted to adequately capture changing market conditions in affordability thresholds for the next five-year horizon.

The City would also need to reflect on impacts related to current Section 37 policies and related guidelines, as well as Home Ownership Assistance Program guidelines. In order to facilitate the development of additional affordable housing by both the non-profit and private sectors, these tools/guidelines would need to align with the intent of the preferred composite definition. While a formal review would need to be undertaken to identify and evaluate implementation issues, it is expected that this may involve:

- Reviewing current Section 37 policies/guidelines to determine alignment with the new definition as well as any required adjustments
- Reviewing possible mechanisms/inducements for supporting deeper affordability within the ownership market through tools and programs
- As part of the above analysis, considering the relative benefit of pursuing deeper levels of ownership affordability by geography, housing form or through price inclusions via the use of tools or programs
- Considering mechanisms for weighing the value of public benefits (i.e. rental vs. ownership, affordable housing versus other community benefits, etc.)
- Promoting good planning by maintaining necessary balance in the process securing benefits for local communities