



REPORT FOR ACTION

2018 Development Charges By-law Review - Treatment of Secondary Dwelling Units

Date: April 24, 2018
To: City Council
From: Interim Chief Financial Officer
Wards: All

SUMMARY

This report responds to a request from Executive Committee on April 17, 2018 that the Interim Chief Financial Officer, in consultation with the Chief Planner, report directly to City Council on April 24, 2018 to eliminate the development charges for secondary dwelling units.

Upon further consideration of this issue, this report recommends that Council adopt a Secondary Dwelling Unit Development Charges Deferral Program that indefinitely defers development charges for secondary dwelling units located in the rear yard of a lot, such as laneway suites, coach houses and garden suites. The charges would only be collected if the unit is severed from the property within 20 years of the issuance of the building permit and would be subject to the rate based on the built form of the development.

This program would treat secondary dwelling units in rear yards with rental tenure in a similar manner as the construction of secondary dwelling units in existing construction, which are typically exempt under the Development Charges Act. The program will help ensure the units are maintained as rental stock, similar to requirements for support for purpose-built rental developments and affordable rental units. Secondary dwelling units in new construction would be unaffected by the changes.

This report was prepared in consultation with the Chief Planner, Director, Affordable Housing, and City Solicitor.

RECOMMENDATIONS

The Interim Chief Financial Officer recommends that:

1. City Council delete Executive Committee Recommendation 1 and instead enact the amended development charges by-law attached as Attachment 1 to the supplementary report (April 23, 2018) from the Interim Chief Financial Officer.

2. City Council authorize the Director, Affordable Housing, in consultation with the Chief Financial Officer and City Solicitor, to administer a Development Charges Deferral Program, and be authorized to enter into deferral agreements in a form satisfactory to the City Solicitor, for Secondary Dwelling Units located in the rear yard of a lot, including but not limited to laneway suites, coach houses, and/or garden suites, so that the charges are collected only if the unit is severed from the property within 20 years of the issuance building permit based on the general terms and conditions set out in Attachment 2.

3. City Council authorize the Director, Affordable Housing, in consultation with the Chief Financial Officer and City Solicitor, to make such administrative amendments to the deferral policy, as necessary, to give effect to the recommendations contained herein.

FINANCIAL IMPACT

Secondary dwelling units represent a small portion of the City's overall new residential construction, but they provide for the opportunity to increase the supply and distribution of rental housing across the City. Currently, these types of units are not a universally permitted form of construction. The Chief Planner has recently introduced a report with recommendations in the May Council cycle that establishes a planning framework to permit laneway suites on lands within the Toronto and East York District (TE32.11). The recommended development charges relief would reduce a potential financial barrier to the construction of these units.

As the implementing zoning by-law to permit laneway housing has not yet been adopted by Council, it is unlikely that the City will see any such units constructed in 2018. It is anticipated that a limited number of units may apply for building permits in 2019. Staff estimate that approximately 50 units in 2019, followed by a maximum of 200 secondary dwelling units in rear yards per year for the duration of this development charges by-law could be applied for if the development charges relief is provided. This corresponds to up to \$8 million in foregone development charges per year. However, some of the 200 units would not be built, or would be constructed as basement units, if not for the relief, so actual forgone revenue would be commensurately less. Two hundred units is about one half of the annual take up in the City of Vancouver for laneway suites, where house prices and laneway prevalence is assumed to make it more conducive to construction of laneway units.

DECISION HISTORY

Executive Committee, on April 17, 2018, requested the Interim Chief Financial Officer, in consultation with the Chief Planner, to report directly to City Council to eliminate the development charges for secondary dwelling units.

- <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX33.3>

COMMENTS

The City is developing policies that would encourage intensification, particularly rental development, in established neighbourhoods through permitting basement suites and secondary dwelling units in rear yards – such as laneway and garden suites. This form of development is thought to allow density to increase in areas where higher density redevelopment is infeasible or overly disruptive, and is intended to enhance and increase the supply of rental units.

The Chief Planner is reporting to the May Community Council cycle on a planning framework to permit laneway suites within the Toronto and East York District. This framework has been outlined in TE32.11 "Changing Lanes: The City of Toronto's Review of Laneway Suites - City-Initiated Official Plan Amendment and Zoning Amendment - Final Report".

The proposed development charges by-law anticipates the occurrence of these secondary dwelling units. A deferral of development charges for rear yard secondary dwelling units would remove a potential financial barrier to creation of these units and incentivize the rental tenure of these units. It would eliminate the disparity in treatment between rear yard secondary and additional units within a building envelope (up to two additional units may be exempt under statute). Faced with this difference in charges, rear yard secondary units would be less likely to be built.

The number of secondary dwelling units built in rear yards is expected to be relatively small. Circumstances favouring this form of development are limited. Consequently the cost of an exemption is estimated to be about \$8 million per year after full phase-in of new rates, assuming Council adopts pending policies facilitating them. Only a portion of this revenue would be realized if the deferral program is not adopted, because in the absence of the deferral program, fewer secondary rear yard units would be built.

In order to help retain the units as rental stock and prevent the exemption from contributing to windfall profits on sale, it is proposed that severance of the unit within 20 years would trigger development charges payment at the applicable rate similar to the treatment for other forms of rental supported by the City. In the case of a laneway suite that is severed from the primary unit, the single detached dwelling unit rate would apply.

This report recommends that Council adopt a Secondary Dwelling Unit Development Charges Deferral Program, as set out in Attachment 2, that would only require the payment of development charges upon the creation of a new lot through a Plan of Subdivision, consent for a severance, or condominium. An administrative fee is proposed for each deferral agreement for the City Solicitor to prepare the agreement, the Director, Affordable Housing to execute the agreement, and for the City's ongoing costs to administer the Secondary Dwelling Unit Development Charges Deferral Program, including monitoring severance applications and calculating and collecting the charges at later date. The Interim Chief Financial Officer, in consultation with staff from Affordable Housing, Legal Services and City Planning, will report through the City's budget process to seek authority to impose such fee.

The development charges deferral program would not apply to the creation of two or more dwelling units in new construction, including basement apartments in a new single or semi-detached dwelling unit. Those types of land development proposals are viewed to not require financial incentives beyond the discounted apartment unit rate already provided, and are virtually indistinguishable from duplexes or other forms of multiple dwelling units.

These recommendations apply only to the City's development charges by-law. Other fees, such as cash-in-lieu for parkland, are governed by different by-laws and are not under consideration in this report.

CONTACT

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SIGNATURE

Joe Farag
Interim Chief Financial Officer

ATTACHMENTS

Attachment 1: Proposed Development Charges By-law
Attachment 2: General Terms of the Secondary Dwelling Unit Development Charges Deferral Program

Attachment 1: Proposed Development Charges By-law

(Provided under separate cover)

Attachment 2: General Terms of the Secondary Dwelling Unit Development Charge Deferral Program

The Director, Affordable Housing, in consultation with the Chief Financial Officer and City Solicitor, be authorized to administer a Development Charges Deferral Program for Secondary Dwelling Units located in the rear yard of a lot, including but not limited to laneway suites, coach houses, and/or garden suites, and execute appropriate agreements on the following basis:

- a) The Owner must not have applied for a consent application under Section 53 of the Planning Act, as amended, a Plan of Subdivision Application under Section 51 of the Planning Act, as amended, or a condominium description and declaration under the Condominium Act, 1998, as amended.
- b) The Owner must apply for the deferral and pay the applicable administrative fee to the City.
- c) The Owner must agree to enter into an agreement with the City under Section 27 of the Act, as amended, (i.e. development charges deferral agreement), registered on title, and any other agreement as required by the City Solicitor.
- d) The development charges deferred must be secured to the satisfaction of the Chief Financial Officer in consultation with the City Solicitor.
- e) The development charges deferral shall include, but is not limited, to the following terms:
 - i. The deferral shall be for 20 years, after which no development charges shall be payable.
 - ii. Should the current or future owner of the property seek to create a new lot or conveyable parcel of land for this unit within 20 years of the issuance of a building permit, development charges shall be payable upon the creation of the new lot based on the rate applicable to the built form and indexed from the date of issuance the building permit to the dated of payment.
 - iii. Should development charges not be collected and a new lot is created, the City shall add the unpaid development charges to the tax roll of the property with the Secondary Dwelling Unit.
- f) The Director, Affordable Housing, in consultation with the Chief Financial Officer and City Solicitor, be authorized to make such administrative amendments to the deferral policy, as necessary.