TORONTO

REPORT FOR ACTION

Inclusionary Zoning Official Plan Policy Directions

Date: May 13, 2019
To: Planning and Housing Committee
From: Chief Planner and Executive Director, City Planning
Wards: All

SUMMARY

This report presents proposed inclusionary zoning policy directions for the purposes of public and stakeholder consultation and feedback. Inclusionary zoning (IZ) is a land-use planning tool that enables the City to require affordable housing units be included in new residential developments.

On April 11, 2018 the Province enacted Ontario Regulation 232/18 under the Planning Act, 1990 to give municipalities the authority to implement inclusionary zoning. The Act and regulation require that municipalities have an assessment report prepared that will be considered as part of the development and prior to the adoption of Official Plan policies. The assessment report is required to include information related to housing need and demand and the financial impacts on the housing market from inclusionary zoning. The City's assessment report has been drafted and will be utilized as part of the consultation program to provide context and rationale for the proposed policy directions. The draft assessment report is available at https://www.toronto.ca/InclusionaryZoning A final assessment report will be considered by Council as part of the recommended Official Plan Amendment.

Issues of housing affordability have grown exponentially in recent years, impacting not only the City's most vulnerable residents, but increasingly low and moderate income households as well. The City's renters, particularly households looking for housing in today's market, have been most impacted by increasing housing affordability issues and are more and more often left with little choice but to pay more than 50% of their income on rent in order to live within access to transit, jobs and services. Housing affordability is also a concern for ownership households, as ownership prices have increased significantly and are out of reach of many households. Adding to these housing affordability issues, the provision of affordable housing has not kept up with the growth of the City, with only about 2% of new units built or approved over the last five years meeting the City's Official Plan definition of affordable housing, defined as at or below average market rent for the City of Toronto by unit type.

In 2018, City Council provided a response to the Province on a proposed version of the inclusionary zoning regulation and reiterated the City's key principles for a successful

inclusionary zoning framework. The proposed inclusionary zoning policy directions builds on these key principles and have been developed through in-depth analysis of housing need and demand over the past 10 years, current trends in market pricing for ownership and rental housing, and analysis of the potential impacts of inclusionary zoning on the financial viability of market developments. The policy directions have also been informed by initial stakeholder consultations with key representatives of the development industry and housing and homelessness organizations.

Affordable housing provided through inclusionary zoning may be provided as affordable rental housing or affordable ownership housing. City staff were directed in 2016 to report on further amendments to the Official Plan affordable ownership housing definition in conjunction with inclusionary zoning. The intent of revising the definition is to better support the provision of affordable ownership housing through Official Plan policies. This report includes proposed direction on an updated definition for affordable ownership housing. The proposed definition will be consulted on along with the proposed inclusionary zoning policy directions, and is expected to be further refined based on feedback and additional market analysis.

On May 2, 2019 Bill 108 (the More Homes, More Choice Act, 2019) was introduced in the provincial legislature. The Bill proposes to amend 13 different statutes, including the Planning Act. Bill 108 is out for consultation until June 1, 2019. City staff are currently reviewing Bill 108, including any implications for inclusionary zoning.

RECOMMENDATIONS

The Chief Planner and Executive Director, City Planning recommends that:

1. The Planning and Housing Committee direct that the proposed Official Plan inclusionary zoning policy directions and affordable ownership housing definition, appended as Attachment 1 to this report, be endorsed as the basis for public consultation.

2. The Planning and Housing Committee direct City Planning staff to undertake consultation, including open houses and meetings with key stakeholders, to obtain comments and feedback regarding the proposed Official Plan inclusionary zoning policy directions and affordable ownership housing definition contained in Attachment 1.

3. The Planning and Housing Committee direct staff to report back in Q4 2019 on the findings from the consultation, the results of any further analysis, and prepare recommended Official Plan inclusionary zoning policies and affordable ownership housing definition.

FINANCIAL IMPACT

This report will have no financial impact beyond what has already been approved in the current year's budget.

The City currently expends approximately $30,000 in tax and fee waivers per unit of affordable housing it delivers through programs such as Open Door. Inclusionary zoning would assist in securing affordable housing in specific areas of the City, allowing for Open Door to be prioritized for other areas of the City.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

Equity Impact Statement

Access to safe, secure, affordable housing is a barrier to improved quality of life for lower-income Toronto residents and experienced differently by different demographic groups. As part of the consultation program for inclusionary zoning, staff will be engaging with the City's Lived Experience Advisory Table in addition to other equity seeking groups.

DECISION HISTORY

At the April 6, 2016 meeting of Planning and Growth Management Committee, the committee deferred consideration of a new Official Plan definition of affordable ownership housing in order to report back on this matter in conjunction with inclusionary zoning. http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.PG11.1

City Council at its meeting of January 31 and February 1, 2018 provided a response to the Province on a proposed version of the inclusionary zoning regulation. Many of City Council's recommendations for increased municipal decision making were incorporated into the final regulation. The report also reiterated the City's key principles for a successful inclusionary zoning framework. These are that the framework be predictable, clear and consistently applied, flexible, equitable and needs based, and partnership based. http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.PG25.8

COMMENTS

Provincial Policy Framework

The Planning Act (Section 2) identifies the adequate provision of a full range of housing, including affordable housing, as a provincial interest. The Act also directs that municipal Official Plans contain such policies and measures as are practicable to ensure the adequate provision of affordable housing.

The Provincial planning policy framework establishes the importance of providing a full-range of housing and identifies affordable housing as a matter of Provincial interest. The Provincial Policy Statement, 2014 (PPS) provides policy direction on matters of provincial interest related to land use planning and development. The PPS directs that planning authorities shall provide an appropriate range of housing types and affordability to meet projected requirements of current and future residents, including establishing and implementing minimum targets for the provision of housing which is affordable to low and moderate income households.

The Growth Plan for the Greater Golden Horseshoe, 2017 (Growth Plan), provides a framework for managing growth in the Greater Golden Horseshoe including providing housing options to meet the needs of people at any age and identifying a diverse range and mix of housing options and densities, including second units and affordable housing to meet projected needs of current and future residents. Policy 2.2.4.9.a) of the Growth Plan directs within all major transit station areas, development will be supported, where appropriate, by planning for a diverse mix of uses, including second units and affordable housing, to support existing and planned transit service levels. Municipalities are required to come into conformity with the Growth Plan, 2017, by 2022, through a municipal comprehensive review and subsequently adopting implementing zoning. The current proposed amendments to the Growth Plan do not change the above policy directions.

On April 11, 2018, Ontario Regulation 232/18 was enacted under the Planning Act to enable municipalities to implement inclusionary zoning. The regulation requires that prior to adopting inclusionary zoning polices, municipalities develop an assessment report that will be considered as part of the development of official plan policies. The assessment report must include analysis of housing need and demand and potential impacts on the housing market and on the financial viability of development. The regulation also requires that Official Plan policies set out a detailed approach of key policy and implementation matters. Once approved by the province, inclusionary zoning policies and site-specific decisions are not appealable to the Local Planning Appeal Tribunal. https://www.ontario.ca/laws/regulation/180232

On May 2, 2019 Bill 108 (the More Homes, More Choice Act) was introduced in the provincial legislature. The Bill proposes to amend 13 different statutes including the Planning Act. Bill 108 is out for consultation until June 1, 2019. City staff are currently reviewing Bill 108 including any implications related to inclusionary zoning.

Municipal Planning and Policy Framework

The City has worked to increase the supply of affordable housing using all available planning and policy tools. Through the City's Official Plan, specifically policy 3.2.1.9 which requires on large sites generally 5 hectares or greater that the first priority community benefit be the provision of 20% of the increased residential units as affordable housing, affordable housing has been secured in a number of new neighbourhoods across the City. Recent large site developments where new affordable housing has been secured include approximately 390 affordable rental and affordable ownership units at the Celestica lands at 844 Don Mills Road and 1150-1155 Eglinton Avenue East, and 30 affordable ownership units at a CreateTO site at 411 Victoria Park Avenue.

The Central Waterfront Secondary Plan includes policies for the provision of new affordable housing. As part of site specific settlements within the Secondary Plan area, the provision of affordable housing through land dedication, affordable rental units constructed as part of the development, or cash-in-lieu for a portion of the obligation has been secured. Similar to the large sites policy, the affordable housing was considered the first priority community benefit.

The City has also used Section 37 of the Planning Act to secure new affordable housing and capital improvements to existing social housing units. From 2013-2017, over $31.5 million and 500 new affordable housing units have been secured through site specific agreements for Section 37 contributions.

City Planning has also carried out a multi-pronged approach to address housing issues focused on maintaining existing rental housing supply, encouraging a diverse mix of housing types and sizes, and advancing policies to support the creation of new affordable housing. Since 2007, these policies have secured and maintained over 9,007 existing rental units, replaced 2,256 demolished rental units, and resulted in the creation of 2,158 net new rental units.

Recent policy and zoning initiatives include increased permissions for second units through updated Official Plan policies and zoning by-law changes, as-of-right zoning and design guidelines for laneway suites, updated zoning for municipal shelters, draft policies on the replacement of existing dwelling rooms, and the Growing Up design guidelines to support housing for families.

In addition to the City's planning and policy framework, the City is utilizing municipal housing programs such as the Open Door Affordable Housing Program and Housing Now to achieve thousands of new affordable housing units. These programs provide an opportunity to layer together policy initiatives with program funding to achieve affordable housing. A recent example of policy and program coordination is the Galleria Mall site at 1245 Dupont Street where 120 units of affordable rental housing was secured as a Section 37 contribution along with an additional 30 units of affordable rental housing through the City's Open Door program.

Other Jurisdictions

Inclusionary zoning is used in over 800 jurisdictions across North America and varying forms of inclusionary zoning are used throughout Canada and Australia. A jurisdictional scan is attached as Attachment 2.

While available data on the impact of inclusionary zoning varies by jurisdiction, inclusionary zoning is generally understood to have created at least 122,320 affordable rental units, 49,287 affordable ownership units across the United States, and over $1.7 billion in cash-in-lieu payments for affordable housing over the past 20+ years. Policy approaches vary across different jurisdictions, however some key trends stand out, including: affordability periods generally range from 30-99 years, with about a quarter of jurisdictions securing affordability in perpetuity; most policies provide for options to provide units on-site, payment in-lieu, and/or the provision of off-site units; geographic coverage of the policy ranges from the entire municipal boundary to only applying in specific zones. However, it should be noted that for large cities such as New York and San Francisco, the policy applies only to specific areas of the city.

Assessment Report

The Planning Act, 1990 and Ontario Regulation 232/18 requires that the City develop an assessment report to be considered in the development of Official Plan policies. The regulation requires the assessment report to include: an analysis of demographics, income, housing supply, and housing need and demand; current average market prices and rents; and analysis of the potential impacts of inclusionary zoning on the housing market.

A draft assessment report has been prepared. The assessment report is made up of two main components: 1. Housing Need and Demand Analysis and 2. Financial Impact Analysis. The analysis contained within this assessment report provided context and rationale for the proposed policy directions and has been utilized in initial stakeholder consultations. Stakeholder and public consultation will be used to further inform the analysis prior to the report being finalized and considered by Council as part of recommended Official Plan inclusionary zoning policies.

1. Housing Need and Demand

The City conducted research of key housing indicators from two previous census periods, 2006 and 2016, to identify trends over roughly the past 10 years. Looking at data by census tract for both owners and renters, a number of key trends stand out.

Over the last 10 years, the number of renters in the City has increased at a greater rate compared to owners (17% compared to 5%), with renters comprising 47% of the City's households. Toronto's proportion of renters and trends in the rate of renter household growth is similar to other large North American cities, such as Chicago (51% renters), New York (65% renters), and Seattle (49% renters), all of which have inclusionary zoning in place. Young adults aged 20-34 and adults between 50-69 years made up the biggest increase in renters. There was also an increase of young adults living in an owned home and a decrease in adults aged 35 to 49 years living in an owned home, which suggests that young adults could be staying in their family home longer, and then renting when they do leave home. The number of family owner households has also increased at a lower rate (5%) than family renter households (13%), indicating that more families are living in rental housing, either by choice or necessity.

In terms of the housing stock, over a quarter of ownership dwellings are in multi-unit buildings with five or more storeys, compared to 64% of rented dwellings. Similar to other trends in household growth, the number of renters has grown in the City's Centres, and Downtown and Central Waterfront. This growth in rental supply, which has predominately been through new condominium units, has not provided for affordably priced housing.

The percentage of renter households paying more than 50% of their income on housing (23%) is almost double that of owners and has grown from 2006 to 2016 by 21%, with the most pronounced need in the Centres and Downtown. Rising asking rents has likely contributed to the increase in the number of households paying more than 50% of their income on housing. Based on City commissioned data, asking rents in the City for existing purpose-built rental housing is close to 40% higher than average market rents the same type of housing as reported by Canada Mortgage and Housing Corporation.

Average market rents are based on rents for all purpose-built rental units that are occupied or vacant, whereas asking rents are currently advertised rents for existing purpose-built rental units.

The vacancy rate across all unit types in private rental housing was just 1.1% in 2018. A closer look at these trends reveals that some of the lowest vacancy rates are in private rental housing that have rents below 80% of average market rent. This points to how households in more affordably priced private market housing are either choosing not to move or unable to move as the gap between their current rent and asking rents would require significant increases to their housing costs. Given the limited supply of housing available at or below average market rents, households looking for housing today are left with little choice except to pay a significant percentage of their income on rent.

A fifth of renters were in unsuitable housing (meaning the housing did not have enough bedrooms for all household members), compared to just 6% of owner households. A significantly greater proportion of renters aged 35-54 live in unsuitable housing compared to other age groups. This age group is the most likely to have children in their household, indicating that finding suitable rental housing for families in the city is a challenge. More renters (47%) are also in unaffordable housing (paying 30% or more of their income on housing) compared to owners (27%), again indicating greater affordability concerns for renters.

In terms of income, data shows that household incomes for renters and owners varies considerably in the City, with median incomes for renter households ($45,385) less than half that of owner households ($92,168). Furthermore, 44% of renter households earn less than $40,000/year compared to just 17% of owner households. Looking at asking prices and rents in the City, asking rents for similar purpose-built rental units, let along ownership prices, are far out of reach for renter households.

Table 1 below contains data by unit type on the 2018 average asking prices for resale condominium units, average asking prices for new condominium units, average asking rents for purpose-built rental units, and the average market rent for purpose-built rental units as reported by the Canada Mortgage and Housing Corporation which are also the City's 2019 affordable rent thresholds as defined in the Official Plan. The table also indicates the income needed to afford each of those prices and rents.

The table demonstrates that the median income for a renter household ($45,385) could only afford the CMHC average market rent for a purpose-built rental bachelor unit. This income level could not afford the average market rents for larger unit types, nor the average asking rents or average ownership prices. The median income for an ownership household ($92,168) could also only afford the ownership average prices for resale or new bachelor units, however would be able to afford average and asking rents for any of the unit types. These findings show that condominium ownership and asking rents are unaffordable to many of the City's renter households.

Table 1: Income Needed to Support Typical Prices* and Rents**

	Average Price - Condo Resale	Income Needed	Average Price - New Condo	Income Needed	Asking Rent***	Income Needed	CMHC Average Market Rent****	Income Needed
Bachelor	$383,421	$88,715	$396,216	$91,675	$1,399	$55,960	$1,089	$43,560
One-Bedroom	$495,920	$114,744	$440,240	$101,861	$1,738	$69,520	$1,270	$50,800
Two-Bedroom	$633,774	$146,640	$660,360	$152,792	$2,026	$81,040	$1,492	$59,680
Three-Bedroom	$587,815	$136,007	$836,456	$193,537	$2,298	$91,920	$1,674	$66,960

* Income needed for ownership housing prices based on:

- Spending maximum of 30% of gross income on housing costs (the housing affordability threshold)
- Standard inputs for amortization period, down payment, interest rate and taxes
- ** Income needed for rental housing based on:
- Spending maximum of 30% of gross income on housing costs (the housing affordability threshold)
- *** Asking rents for purpose-built rental units only
- **** CMHC average market rents represent average rents for both vacant and occupied purpose-built rental units

2. Financial Impact Analysis

The City retained N. Barry Lyon Consultants Limited (NBLC) to conduct a residual land value assessment of the impact of a range of inclusionary zoning requirements on 11 geographies across the City. Geographies were selected based on their proximity to higher order transit and ensuring that a range of market conditions were included. The analysis looked at the predominant built form and as-of-right and supportable densities in order to assess potential development for an area. To complement this analysis, staff conducted analysis of sales and market data indicators over the past 5 years taking into account different market areas.

Residual Land Value Assessment

A residual land value assessment is a common form of analysis used by other cities in the development of inclusionary zoning policies. The method looks at the impact of inclusionary zoning on land values. If the policy requirements are set too high, landowners may not sell their property and new development may not occur as the impact of the policy would reduce the value of land to a level that there would be no incentive to develop. In this scenario, a reduced supply of market units could have the effect of pushing up the price of housing where market demand is assumed to stay constant as there would be a reduced number of units for the same level of demand.

A balanced policy framework is one where land values would continue to exceed the existing value of the land based on the current use. In a balanced policy framework scenario, both landowners and developers would continue to be motivated to sell and develop land and there would be no direct impact on housing prices resulting from the policy as the supply of housing would continue to provide sufficient competition.

Methodology

NBLC looked at how inclusionary zoning could be applied without impacting the financial viability of development. In order to achieve a comprehensive assessment, NBLC included other impacts on development costs including potential changes to municipal fees and requirements. The analysis included:

- Assumptions for hard costs based on the 2019 Altus Construction Cost Guide;
- An additional hard cost premium for sites in the Downtown and Yonge-Eglinton secondary plan areas;
- Standard inputs for soft costs, construction financing, and development timelines;
- Recent changes to development charges;
- Potential changes to parkland dedication rates;
- Assumptions for Section 37 contributions;
- Assessing the impact of inclusionary zoning separately for condominium ownership and purpose-built rental projects; and
- An assumption that affordable units were built with a lower parking rate.

No other municipal financial contributions were included in the model.

The methodology tested a number of different policy options to assess the approximate impact to land values from inclusionary zoning. Policy options tested included the following:

- An affordable housing requirement of 5% to 25% of a density increase (above and beyond as-of-right zoning by-law permissions on a site). Note: where a Secondary Plan study was underway for an area, as-of-right permissions were based on an assumed updated density that reflected the preliminary directions of the Secondary Plan study;
- Affordable units at 100% of average market rent;
- Affordable units at 80% of average market rent; and
- A range of affordability periods were tested, from 15 to 99 years.

Based on feedback from stakeholders, further testing and analysis will be undertaken on the impact of applying the affordable housing requirement across an entire development.

Strong, Moderate and Emerging Markets

Based on the findings from the financial impact assessment and the detailed sales and market data analysis, housing market areas across the City can broadly be categorized into strong, moderate, or emerging markets.

To determine strong and moderate market areas, sales and market data from the past 5 years, Q4 2013 to Q3 2018, was reviewed and a number of indicators analyzed. Using geographic boundaries utilized by the Toronto Real Estate Board, Altus Group and Canada Mortgage and Housing Corporation, the following indicators were analyzed:

- resale prices for condominium apartments;
- resale price escalation;
- new condominium prices;
- new condominium price escalation;
- new rental prices;
- intensity of development activity measured by the number of approved and proposed units in the development pipeline; and
- whether an area achieved high, medium or low financial viability when an inclusionary zoning requirement was applied.

In order to be considered a strong market, the geographic area had to achieve at least fifty percent of a minimum number of indicators that were assessed for that area. Data was not uniformly available for all areas, as not every market had new condominium and rental projects transactions during the 5 year time period. Based on the market criteria, strong markets are generally within the boundaries of the former City of Toronto and along the Yonge Street corridor, with the exception of Yonge-Eglinton Centre.

The market analysis also led to the categorization of certain areas of the City as moderate markets because they did not meet the test for a strong market area, but are still areas where significant new development is being supported. Etobicoke, Scarborough, and Yonge-Eglinton Centres are examples where the planning frameworks provide for significant new development, yet price growth, or in the case of Yonge-Eglinton, Council adopted planning permissions, are not strong compared to the City as a whole.

Emerging markets are areas of the City where significant new development is not occurring and prices and price growth have not been strong compared to the City as a whole. Some of these areas include approved public transit investments, which may have an impact on market conditions in the future once new transit infrastructure is funded and underway.

As part of the legislative requirements, market areas are to be assessed at least every five years in order to evaluate whether the market has changed over the past five years and if inclusionary zoning requirements should be adjusted and/or applied to new areas.

A map generally identifying the strong and moderate market areas is appended as Attachment 3.

Results of Financial Impact Analysis

Findings from this analysis confirm that land values are not equal throughout the City. Strong market areas are more easily able to absorb the impact of inclusionary zoning with only marginal impacts on land value.

Specifically, in strong market areas the Financial Impact Analysis showed that applying a 20% affordable housing requirement on increased density would result in a 10% to 30% impact to land values and redevelopment land values would continue to be well in excess of the existing site value. In moderate markets areas a 20% affordable housing requirement showed a higher impact to land values, however when the affordable housing requirement was reduced to 10% of the increased density, the land value impact was reduced and project viability was maintained. In emerging market areas, project viability was already constrained and land values were not able to support any level of affordable housing requirement.

Purpose-Built Rental Projects

The analysis also showed that applying a 20% affordable housing requirement on increased density for purpose-built rental projects would result in more significant impacts on land values in strong market areas compared to the impact on condominium projects, to the point where purpose-built rental projects were no longer viable in some test areas. To address this, the financial impact assessment also looked at the impact of applying a 5% requirement on increased density for purpose-built rental projects, instead of the 20% requirement on increased density for condominium projects. The results of this approach somewhat balanced the impact of the affordable housing requirement for rental projects so that they are not disproportionately impacted compared to condominium projects.

According to Urbanation, as of Q4 2018, there were over 32,000 proposed purpose-built rental units in 138 projects and another 10,500 units currently under construction. Strong demand coupled with high pricing for rental housing has led to a sizable increase in the number of proposed purpose-built rental projects, however rental developments face a number of hurdles in order to compete for land with condominium projects. This is due to more challenging financing requirements, delayed revenue, and greater market risk as compared to condominium projects. In order to continue to see strong rental market activity, the results of the financial impact assessment suggest the need for policy direction that addresses financial viability challenges faced by purpose-built rental projects by applying a lower affordable housing requirement for such projects.

Further Analysis

As noted earlier, there is a high level of stakeholder interest for applying the affordable housing across an entire project instead of only on the increased density. Further testing and analysis will be completed in order to assess the impact of applying the affordable housing requirement across an entire project. Findings from this analysis will be consulted on as part of the public and stakeholder consultation process and presented in the staff report recommended to be brought forward in Q4 2019.

Proposed Official Plan Inclusionary Zoning Policy Directions

Proposed policy directions have been developed based on the assessment report analyses and through initial input from inter-divisional partners and stakeholders. Three key goals for the policy have been identified. These are that inclusionary zoning increase the supply of affordable housing, continue to encourage market housing development by supporting a diverse range of housing supply, and create more inclusive, complete and equitable communities.

The proposed policy direction reflects the requirements set out in Ontario Regulation 232/18 under the Planning Act, which enables municipalities to implement inclusionary zoning. The regulation requires that Official Plan policies set out the approach to authorizing inclusionary zoning and that it includes the policy areas noted in Table 2 below. The table is followed by a discussion of key considerations for each policy area.

Staff have held meetings with a wide variety of stakeholders, including representatives from the development industry and housing and homelessness organizations. Preliminary feedback on policy options and directions reflects a wide range of perspectives. Further analysis and financial testing on specific policy directions will occur throughout the consultation process in order to refine the proposed policy directions.

Table 2: Summary of Provincial Regulation Policy Requirements and Proposed Official Plan Inclusionary Zoning Policy Direction

O.Reg 232/18, 3.(1) Policy Requirement	**Proposed Policy Direction**
1. Size of development (minimum unit threshold)	• Applies to projects over 100 units in the Downtown and east and west of the Downtown. • Applies to projects over 140 units in all other IZ areas.
2. Locations and areas of inclusionary zoning	• To apply in strong and moderate market areas, as defined by the policy framework.
3. Eligible household incomes	• Low and moderate income households will be assisted by the policy framework, generally the 30th to 60th percentiles of income. Also refer to policy item #8 in the table.
4. Housing types and sizes of units	• The affordable housing units will generally reflect the unit types and sizes of the market component of the development.

O.Reg 232/18, 3.(1) Policy Requirement	**Proposed Policy Direction**
5. Required amount of affordable housing	• Requirement depends on market area. • Lower requirements for purpose-built rental projects that will not be condominium-registered for a period of at least 40 years. • Policy options to be consulted on: **Option 1** • Applied on the increase in density above as-of-right permissions. For condominium projects: • 20% in strong market areas • 10% in moderate market areas For purpose-built rental projects: • 5% in strong market areas • 2.5% in moderate market areas **Option 2** • Applied across an entire project. For condominium projects: • a percentage that achieves the same intent as Option 1 above For purpose-built rental projects: • a percentage that achieves the same intent as Option 1 above • Where rental units are to be conveyed at no cost to the City for the purposes of long-lasting affordability or deeper affordability, the provision of affordable housing will be reduced by 50%.
6. Affordability period	• 25 year affordability period. • Legal agreements will secure that tenants who commence occupancy during the affordability period would not be subject to rent increases beyond the provincial rent increase guideline for the entire length of their tenancy.
7. How measures and incentives are determined	• Amount of affordable housing is calibrated across different markets to ensure that project viability is able to be maintained without municipal financial contributions.

O.Reg 232/18, 3.(1) Policy Requirement	Proposed Policy Direction
8. Price or rent of units	• Affordable rents are based on 100% of average market rents for the City of Toronto by bedroom type and are inclusive of utilities, which is the current Official Plan definition of affordable rental housing. • Affordable ownership price is proposed to address households with income between the 30th and 60th percentiles of income, depending on unit type. • At least 10% of the units will be provided at 80% of average market rents, with the remaining units to be rented at no more than 100% of average market rent.
9. Approach to determine sharing of net proceeds	• Affordable rental housing units would not be required to share proceeds of a sale where the housing is sold to a new owner. • Affordable ownership units will require ongoing administration and oversight by a non-profit housing provider. Legal agreements will secure that any proceeds from a sale be redirected by a non-profit provider towards affordable housing.
10. Offsite unit circumstances and conditions	• Offsite units would be permitted at the City's discretion and provided the off-site units are located in an inclusionary zoning area.

Additional details on the proposed policy directions and how they address the policy framework goals and principles are outlined below.

1. Size of Development

The regulation sets a minimum threshold of 10 units. To continue to support and encourage a full range of housing, the proposed policy direction is to set higher minimum thresholds in order to continue to support and encourage mid-rise housing developments. The policy is anticipated to apply to tall buildings and larger developments, however higher intensity mid-rise developments may be subject to the policy depending on the overall project size.

The size of mid-rise developments varies across the city. For the city as a whole, the average size of a mid-rise development ranges from 100 to 132 units, whereas 74% of mid-rise projects in the downtown have less than 100 units. The proposed policy direction is for a minimum unit threshold of 100 units within the City's downtown area and 140 units elsewhere in the City. The smaller size of mid-rise developments in the downtown reflects typically smaller site conditions that, when the City's mid-rise design guidelines are applied, result in smaller projects compared to the rest of the City.

2. Locations and Areas

Areas of the city that have experienced the greatest amount of new housing supply are also areas where there have been significant price escalation and growth in rental prices. These same areas also have the highest number of households paying over 50% of their income towards rent, with many also living in overcrowded conditions.

As a market housing policy tool, inclusionary zoning is best positioned as an approach to create mixed income developments within areas of the city where growth is occurring and development economics can support the inclusion of affordable housing units without financial programs. This approach helps to contribute to inclusive and complete communities, where the market has not provided for a mix of housing prices on its own.

As such, the proposed policy direction is to apply inclusionary zoning requirements to strong and moderate market areas of the City. An inclusionary zoning policy in emerging markets of the City could have the effect of making market housing less viable, resulting in potentially negative impacts to these local communities as fewer new housing opportunities and resulting economic development would be created.

Further analysis of market data for strong, moderate and emerging markets is outlined in the proposed Housing Need and Demand Analysis report available on the project website.

3. Eligible Household Incomes

There continues to be a strong need in the City for low and moderate income renter households to access affordably priced housing. The proposed policy framework is intended to assist low and moderate income households that are generally in the 30th to 60th percentiles of income. This is equivalent to approximately $35,000 to $67,000 per year for renter households or approximately $42,500 to $87,500 per year for households moving into ownership housing, depending on household size. As a policy tool, inclusionary zoning is challenged to create deeply affordable units without the provision of additional funding. However, housing benefits could be layered with inclusionary zoning to provide units to households in need of more deeply affordable housing.

4. Housing Types and Sizes of Units

In many jurisdictions where inclusionary zoning has been implemented, the policy approach has been to require the affordable housing units to be comparable in size and type to the market units in the development.

The City's Official Plan states that a full range of housing will be provided and maintained to meet the needs of current and future residents. The Downtown Secondary Plan and Yonge-Eglinton Secondary Plan include housing policies that require a minimum amount of 2- and 3-bedroom units of 87 square metres and 100 square metres respectively. The Council-adopted Growing Up: Planning for Children in New Vertical Communities draft urban design guidelines provide guidance on the proportion and size of larger units recommended in new multi-unit residential developments across the city.

Based on these policy directions, the affordable housing secured through inclusionary zoning will generally reflect the market component of the development in terms of unit types and sizes. Implementation guidelines would also address matters such as shared entrance and amenities for the affordable housing units.

5. Required Amount of Affordable Housing

The Financial Impact Analysis demonstrates that inclusionary zoning requirements would impact strong market areas and moderate market areas differently and would disproportionately impact rental projects compared to condominium projects. In order to provide for an equitable approach and to ensure the continued viability of development, it is proposed that different inclusionary zoning requirements be applied to strong versus moderate market areas and condominium projects versus rental projects.

Stakeholder feedback has been varied on whether the affordable housing requirement should apply to the additional density above as-of-right permissions or to an entire development. As-of-right permissions are considered to be based on the in-force zoning by-law or, where the zoning has not yet been updated to implement an Official Plan Amendment, Secondary Plan area of SASP, the permissions provided for in the Secondary Plan or SASP. Further testing and analysis will be undertaken to assess the impact of both approaches and the proposed policy direction identifies both approaches as policy options. The policy direction will continue to be refined as part of the further analysis and public and stakeholder consultations.

6. Affordability Period

The City's current practice for securing a minimum affordability period varies across different policies and programs. Policies requiring the replacement of rental housing requires an affordability period of 10 years. When securing new affordable housing as part of the Official Plan large sites policy or through Section 37, the practice is to seek to extend the affordability period to 15 to 20 years. Examples of programs where funding is provided to create affordable housing include the City's Open Door program which currently secures a minimum 30 year affordability period (inclusive of a 5 year phase-out period), while the Housing Now initiative will be using a 40 to 99 year period.
To align with the Open Door program as well as respond to policy practice, it is proposed that a minimum 25 year affordability period (not inclusive of any phase-out period) be secured for new affordable housing units. Matters related to a phase-out to market rents will be dealt with as part of implementation guidelines.

Where units are conveyed to the City for long-term lease or transferred to a non-profit housing organization for the purposes of a longer affordability period (e.g. greater than 25 years) or deeper affordability (e.g. 80% of average market rent for all affordable housing units), it is proposed that the inclusionary zoning requirement be reduced by 50%.

7. How Measures and Incentives are Determined

Where measures and incentives are provided in other jurisdictions, they typically include density bonuses, reduced parking requirements, planning application or development fee waivers, and/or property tax exemptions.

The Financial Impact Analysis findings demonstrate that proposed inclusionary zoning policy directions would not impact the viability of development in strong market areas of the city. Where no density increases or financial contributions are provided, the impact of inclusionary zoning would be largely absorbed by reducing land values.

In order to ensure the continued viability of development, the proposed approach would consider market sensitivities and apply inclusionary zoning requirements where it has been demonstrated that they would not impact the viability of development.

Where additional affordable units or a longer affordability period would be provided, developments subject to inclusionary zoning would be eligible for the suite of incentives offered through the City's Open Door Affordable Housing Program.

8. Price or Rent of Units

The proposed policy approach would rely on the existing Official Plan definition for affordable rental housing and affordable rents, meaning that rents for affordable rental units provided through inclusionary zoning would be secured at no more than city-wide average market rents by unit type, as per the Canada Housing Mortgage Corporation's annual Rental Market Survey. It is also proposed that to reach deeper levels of affordability, where affordable rental housing is secured, at least 10% of the units would be secured at 80% of average market rents or lower. Where funding through City programs, such as Open Door, is available, rents could be further reduced in order to reach households who are in need of deeper levels of affordability.

A proposed new definition of affordable ownership housing will be consulted on as part of the policy directions and is outlined in further detail later in the report.

9. Approach to Determine Sharing of Net Proceeds

The regulation outlines that Official Plan policies include an approach for how proceeds from the sale of an affordable unit will be determined. For units secured as ownership housing, it is proposed that after the 25 year affordability period has ended, affordable ownership units could be sold at a market price, subject to any requirements from the non-profit housing provider overseeing the units. The provincial regulation permits municipalities to receive up to 50% of the net proceeds of that sale.

Where affordable ownership units will be provided, it is proposed that the units would be conveyed to a non-profit housing provider who would assume responsibility for administration and ensuring the ongoing affordability of the units. As part of this process, the City would enter into an agreement with the non-profit housing provider to ensure that any proceeds from the sale of the units be reinvested in other affordable housing projects.

Where rental units are sold to a new rental owner after the affordability period, no equity sharing is proposed. This approach is consistent with how the City manages new affordable rental housing secured as part of Section 37 or through the Open Door program.

10. Offsite Unit Circumstances and Conditions

The intent of the proposed policy approach is for affordable housing to be provided on-site. This will ensure new affordable units are provided across the city and that inclusionary zoning is contributing to the creation of complete and inclusive communities. However, there may be some instances where the affordable housing would be best accommodated on another site. The policy direction would permit locating the affordable housing units off-site, provided that the alternative site is within an inclusionary zoning area and addresses other planning matters, such as timing of the off-site development, access to neighbourhood services and amenities, and geographic proximity, among other matters. This off-site approach has been used with the City's rental unit replacement policy.

Other Matters

The provincial regulation outlines the following restrictions and exemptions, which have been incorporated into the proposed policy direction. Inclusionary zoning will not apply:

- to developments proposed by a non-profit housing provider or a partnership with a non-profit housing provider where at least 51% of the units will be provided as affordable housing and the non-profit housing provider will maintain a majority interest in the project;
- where an application for an Official Plan Amendment and a Zoning By-law amendment or a Zoning By-law Amendment were made prior to the date that City Council approves the Inclusionary Zoning Official Plan Amendment provided that an application has also been made for approval of a plan of subdivision or condominium approval; or
- where an application for site plan approval or a building permit has been made for the subject site prior to the date that an Inclusionary Zoning By-law is in force and effect.

Additionally, the regulation outlines that Section 37 benefits may not apply to the height and density associated with the affordable housing units, but may continue to apply to the remainder of the development.

Definition of Affordable Ownership Housing

Affordable housing provided through inclusionary zoning may be provided as affordable rental housing or affordable ownership housing. The City's Official Plan defines Affordable Ownership Housing as housing that is priced at or below an amount where the total monthly shelter cost equals the average City of Toronto rent, by unit type. However, given the substantial increases in ownership prices in recent years, the approach of using average market rents to derive ownership prices results in affordable ownership price points that are well below market prices for comparable unit types.

In July 2013, the City retained a consultant to review the City's Official Plan definition for Affordable Ownership Housing. The purpose of the study was to review and evaluate a range of definitions for affordable ownership housing based on the current ownership housing market, household incomes and the City's existing housing policy framework. The intent of this work was to inform amendments to the City's Affordable Ownership Housing definition to better support the provision of affordable ownership housing through Official Plan policies.

The City undertook consultation on proposed amendments to the definition for Affordable Ownership Housing in 2015. The proposed amendments included using income indicators and ownership market prices to identify affordable price thresholds below what the ownership market is producing by unit type but that are more in line with current ownership market prices. The proposed definition was targeted to moderate income households between the 30th and 60th income percentiles where there is greater capacity for rental households to move into the ownership market, and included bachelor, one-bedroom, two-bedroom, three-bedroom and four-bedroom price thresholds. This revised definition for Affordable Ownership Housing was presented to Planning and Growth Management Committee in 2016, where Committee deferred consideration of the item and directed staff to report back on amendments to the City's Affordable Ownership Housing definition in conjunction with inclusionary zoning.

Building on this previous analysis and consultation for a new affordable ownership housing definition, a revised definition is proposed for consultation that uses an income based approach that takes into consideration different household sizes and unit types. The revised definition focuses on the establishment of affordable ownership prices for low and moderate income households, and while it still targets the 30th and 60th income percentile, it reduces the number of unit types within this range to allow for higher price thresholds for larger unit types.

Stakeholder feedback on a previous proposed definition raised concerns that the proposed distribution of the 30th to 60th percentiles were too limiting and did not address the needs of moderate income households or ownership prices in Toronto's housing market. The proposed revised definition adjusts the percentiles slightly to address these concerns by targeting three-bedroom units to households in the 60th income percentile (under the previous proposal, three-bedroom units would be targeted to households in the 55th income percentile). Work is underway to review to what extent the market is providing ownership units at the proposed definition prices, in addition to which areas of the city, if any, are achieving these prices. As part of the consultation program, further analysis will be shared on the proposed definition.

The revised affordable ownership housing definition proposed for consultation is included as part of Attachment 1.

Consultation Approach and Next Steps

City Planning has undertaken initial consultation with stakeholders and other divisional staff on inclusionary zoning. Recent Secondary Plan studies, such as TOcore and Midtown in Focus, also included consultation on an affordable housing framework and input from these consultations have also helped to inform the proposed inclusionary zoning policy direction.

In addition, development of the City's next 10-year housing plan is currently underway. The development of final recommended inclusionary zoning policies will be informed by the consultations and policy directions coming out of this work. The Bill 108 proposed amendments to the Planning Act will also be considered.

Public consultation on the proposed Official Plan inclusionary zoning policy direction will begin in June and continue throughout the spring, summer and early fall. The consultation process will include public open houses, on-line engagement, a speaker's panel event, advertising and other methods to increase awareness and engage people throughout the City. Stakeholder consultation will continue throughout this period to ensure a broad group of perspectives are considered, including the development industry, non-profit housing organizations, housing and homelessness advocacy groups, residents and tenant associations, indigenous housing groups, and people with lived experience of poverty, among others.

The results of the stakeholder and public consultation are targeted to be brought to Planning and Housing Committee in Q4 of this year, along with the final Assessment Report and recommended Official Plan Amendment.

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ATTACHMENTS

Attachment 1: Proposed Policy Directions for Consultation
Attachment 2: Inclusionary Zoning Jurisdictional Scan
Attachment 3: Strong and Moderate Market Areas
Attachment 4: List of Key Stakeholder Group for Consultation

Attachment 1: Proposed Policy Directions for Consultation

Creating mixed income, inclusive communities is key to the City's economic vitality and livability. The provision of affordable housing will keep pace with the growth of new market housing, resulting in neighbourhoods across the City that provide housing options for a full range of incomes and households.

1. Market areas will be determined based on the following indicators to be reviewed on a regular basis:

- resale prices and escalation;
- new condominium prices and escalation;
- new rental prices;
- residential development activity; and
- financial impact viability.

Strong Market Areas

2. Areas that meet or exceed at half of the market area indicators in 1 above will be considered strong market areas.

a. Condominium ownership projects in strong market areas will provide a minimum of 20% of the additional residential gross floor area as affordable rental or ownership housing. Purpose-built rental projects that will not be condominium-registered for a period of at least 40 years will provide a minimum of 5% of the additional residential gross floor area as affordable rental housing, **OR**

b. Condominium ownership projects in strong market areas will provide a minimum amount of the total residential gross floor area as affordable rental or ownership housing (amount to be determined). Purpose-built rental projects that will not be condominium-registered for a period of at least 40 years will provide a minimum amount of the total residential gross floor area as affordable rental housing.

Moderate Market Areas

3. Area that do not meet or exceed at least half of the market area indicators in 1 above and are identified as growth areas will be considered moderate market areas.

a. Condominium ownership projects in moderate market areas will provide a minimum of 10% of the additional residential gross floor area as affordable rental or ownership housing. Purpose-built rental projects that will not be condominium-registered for a period of at least 40 years will provide a minimum of 2.5% of the additional residential gross floor area as affordable rental housing, **OR**

b. Condominium ownership projects in moderate market areas will provide a minimum amount of the residential gross floor area as affordable rental or ownership housing (amount to be determined). Purpose-built rental projects that will not be condominium-registered for a period of at least 40 years will provide a minimum amount of the residential gross floor area as affordable rental housing.

4. The inclusionary zoning requirement will be reduced by 50% where rental units will be conveyed at no cost to the City for the purposes of long-lasting and/or deeper affordability.

5. Where policy 2a or 3a applies, the amount of affordable housing will not apply to residential gross floor area that may be constructed based on existing zoning by-law permissions.

6. Where policy 2a or 3a applies, should the applicable zoning have not been updated to implement an Official Plan Secondary Plan area or Site and Area Specific policy area, the City may consider whether the existing zoning by-law permissions should be adjusted for the purposes of calculating the required amount of affordable housing.

7. Inclusionary zoning will apply to sites with over 100 units or an equivalent amount of residential gross floor area in the Downtown and areas east and west of the Downtown. For all other inclusionary zoning areas, new affordable housing will be required on development sites with over 140 units.

8. The affordable housing will be provided within new residential developments. At the discretion of the City, units may be provided on another site so long as it is located in one of the identified inclusionary zoning areas.

8. The affordable housing units will be maintained with affordable prices or rents for a minimum continuous period of 25 years.

9. Where affordable rental units will be provided, in order to reach households with a range of incomes, at least 10% of the affordable housing units will be provided at 80% of average market rent.

10. The affordable housing will generally reflect the market component of the development in terms of unit types and sizes.

11. Inclusionary zoning requirements will not apply to developments proposed by a non-profit housing provider or a partnership with a non-profit housing provider where at least 51% of the units will be provided as affordable housing and the non-profit housing provider will maintain a majority interest in the project.

12. The policy will not apply where:

a) an application for an Official Plan Amendment and a Zoning By-law amendment or a Zoning By-law Amendment were made prior to the date that City Council approves the Inclusionary Zoning Official Plan Amendment provided that an application has also been made for approval of a plan of subdivision or condominium approval; or

b) prior to the date that an Inclusionary Zoning By-law is in force and effect, an application for site plan approval or a building permit has been made for the subject site.

Affordable Ownership Housing Definition:

Affordable ownership housing is housing which is priced 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; and
- three bedroom units must be affordable to households with incomes no higher than the 60th 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.