TORONTO

REPORT FOR ACTION

Build More Homes: Expanding Incentives for Purpose Built Rental Housing

Date: October 30, 2024
To: Executive Committee
From: Deputy City Manager, Development & Growth Services, and Chief Financial Officer and Treasurer
Wards: All

SUMMARY

Toronto is facing two housing crises – one where there is a lack of deeply affordable and supportive homes for low-income, marginalized, and vulnerable residents, as well as those experiencing homelessness; and a more recent one in which rising rents have made it increasingly unaffordable for middle income earners, key workers and professionals to live in the city. To respond to this dual crisis, City Council has pledged to meet the Provincial housing target of 285,000 housing starts in Toronto by 2031, and has expanded its HousingTO 2020-2030 Action Plan (HousingTO Plan) targets to approve 65,000 rent-controlled homes, including rent-geared-to-income (RGI) and affordable rental homes, by 2030.

An adequate supply of purpose-built rental homes is central to a well-functioning housing system that can meet the housing needs of current and future residents. However, Toronto is facing a shortage of purpose-built rental homes as a direct result of insufficient investments from all orders of government since the early 1990s. As governments stepped back from investment in new purpose-built rental homes, new private investment in condominiums increased leading to a situation where 85% of all new rental homes created in Toronto in the past 10 years are from the secondary market (wherein condominium investors rent out their units). These homes provide less security for renters than purpose-built rentals, and on average have rental rates that are over 40% higher than existing purpose-built rental homes.

The current lack of purpose-built rental housing in Toronto is likely to worsen due to high interest rates and financing costs, inflation, and increasing construction costs which have resulted in a significant slowdown in new residential development. Housing starts in the City of Toronto for August and September, 2024, are down 75% and 81% respectively over the same months last year, indicating a significant slowdown in new housing development. Further, industry data indicate that between 18,000 to 26,000 purpose-built rental homes are currently stalled due to challenging market conditions.

All orders of government have historically played a larger role in shaping the housing system to create new purpose-built rental homes than they do today. While there have been recent federal and provincial actions aimed at supporting new rental housing development (including GST/HST waivers on purpose-built rental homes, and development charge discounts for rental units), these have not proven sufficient to significantly increase purpose-built rental housing supply. While the City has made significant investments in housing in recent years, particularly affordable rental housing, the constraints on the City's finances are considerable and it cannot trade-off investments in infrastructure with un-capped incentives for purpose-built rental housing. Much more action is required from the federal and provincial governments to achieve the level of rental housing growth needed in Toronto, Ontario, and Canada.

The City is prepared to take a number of actions and lead the way in building a housing system that delivers the new rental homes Toronto's current and future residents and economy needs to thrive. This report recommends City Council unlock 20,000 new rental homes comprised of 16,000 new purpose-built rental homes, and 4,000 affordable rental homes, primarily on private land. This report also recommends City Council invite other orders of government to collaborate with the City in making a generational shift in the housing system, where governments influence the housing system and work with private land-owners and investors to make the delivery of purpose-built rental housing a priority. As directed by Council in June, 2024, staff have undertaken consultation with industry stakeholders, and conducted extensive analysis with an independent third-party consultant, in order to inform the development of the recommendations in this report.

These 20,000 new homes will be delivered under a new Purpose-Built Rental Homes Incentives stream (as part of the recently approved Rental Housing Supply Program). A minimum of 20% of these homes will be provided as affordable rental homes, meeting the City's new income-based definition of affordable rental housing, and be secured for a target of 99 years and a minimum of 40 years.

To move immediately to action, this report also recommends City Council:

- Support 7,000 new rental homes comprised of 5,600 purpose-built rental homes, and at least 1,400 affordable rental homes, to be identified through a rapid call for applications which will be released immediately upon Council approval;
- Approve a New Multi-Residential Property (Municipal Reduction) Tax Subclass consistent with EX16.8, and direct staff to implement a 15% property tax reduction for all new purpose-built rental developments for a 35-year period as part of the 2025 budget process; and
- Immediately support the 5,600 purpose-built rental homes by deferring development charges otherwise payable in respect of an eligible development, for as long as the development maintains the rental tenure.

The estimated value of the deferral of developments changes for 5,600 purpose-built rental homes is $210.8 million. Like all new purpose-built rental homes, they will also benefit from the 15% reduction in property taxes for 35 years (estimated value of $114.2 million).

The City's contributions towards these purpose-built rental homes will complement financial incentives for the at least 1,400 affordable rental homes to be delivered through this call (estimated at $136.2 million, including foregone property taxes for 40 years and waived planning and building fees).

Subject to adoption of this report, staff will report back to Council on an implementation tool to provide incentives for purpose-built rental homes. To this end, staff will consider the use of a Community Improvement Plan, among other options.

The City's jurisdictional and financial capacity to shift the housing system is limited, and it cannot act alone. As such, this report recommends City Council:

- Request the Province immediately establish a Build More Homes Rebate estimated at $1.0 billion, for the value of development charges and 85% of property taxes for 10,400 purpose built rental homes. Upon approval by the Province, the City will release a call for applications to offer incentives for the next 13,000 rental homes, including 20% affordable rental homes (2,600 units);
- Request the federal government to immediately allocate a $7.3 billion portfolio of low-cost financing to support the delivery of the new affordable and purpose-built rental homes described in this report (20,000 homes total); and
- Request the federal and provincial governments work with the City in implementing a Canada-Ontario-Toronto Builds program that will align efforts and resources across three orders of government including land, funding & financing, partnerships, and approvals processes, to build more affordable and purpose-built rental homes for low- and moderate-income residents.

The proposed two-phase strategy to reach 20,000 new rental homes, including 4,000 affordable rental homes, is summarized in Table 1 below.

Table 1 – Summary of Rental Housing Outcomes Proposed through this Staff Report

	Min. Affordable Rental Homes	**Up to Purpose-built Rental Homes**	**Total New Rental Homes**
Phase 1 - City–supported Quick Start	1,400	5,600	**7,000**
Phase 2 -Subject to Intergovernmental Support	2,600	10,400	**13,000**
Sub-total	**4,000 (20%)**	**16,000 (80%)**	**20,000 (100%)**

New federal and provincial housing programs including the Housing Accelerator Fund (HAF) and Building Faster Fund (BFF) have made capital funding contributions contingent on municipalities achieving targets for new housing starts. In addition to meeting the demand for rental homes, increasing new rental housing supply can support the City in accessing much needed capital funding which can be directed to funding new rent-geared-to-income and affordable rental homes, and housing enabling infrastructure.

Without immediate action by all orders of government to shape the housing system by ensuring sufficient supply of purpose-built rental homes, more residents, specifically renters, will experience housing instability and potentially homelessness; Toronto's health and social service sector will face a deepening key worker staffing crisis; and Toronto's businesses will be unable to attract the workforce and labour supply they need to grow, thereby limiting our economic growth.

RECOMMENDATIONS

The Deputy City Manager, Development and Growth Services, and Chief Financial Officer and Treasurer, recommend that:

Establishing a New Purpose-built Rental Homes Incentives Stream

1. City Council endorse the development of a new Purpose-built Rental Homes Incentives stream under the City's Rental Supply Housing Program to support 20,000 rental homes, including up to 16,000 purpose-built rental homes and at minimum 4,000 affordable rental homes by:
    a. Supporting in the short-term up to 5,600 purpose-built rental homes through a deferral of development charges payable and 15% property tax reduction for 35 years, estimated at $325.0 million;
    b. Requesting the provincial government to support an additional 10,400 purpose-built rental homes by providing a Build More Homes Rebate to the City, equivalent to the value of development charges payable and 85% of property taxes owed by eligible projects for 35 years, estimated at $1.0 billion;

2. City Council direct the Executive Director, Housing Secretariat to require the rental housing projects approved under Part 1 above to deliver at least 20% of homes as affordable rental homes (at least 4,000 affordable rental homes) which meet the requirements of the Rental Housing Supply Program, and:
    a. Approve financial incentives for at least 1,400 affordable rental homes to be supported through the Rental Housing Supply Program, estimated at $136.2 million;
    b. Request the federal and provincial governments as part of a Canada-Ontario-Toronto Build program, to each provide the City with $225.3 million in grant funding to support the creation of at least 2,600 affordable rental homes beyond those identified in Part 2a.

3. City Council request the federal government to immediately allocate a $7.3 billion, three-year portfolio of CMHC low-cost financing at competitive rates and terms for the 20,000 affordable and purpose-built rental homes, and work with the City to

accelerate the financing application and underwriting process to complete from start to finish in 90 days.

4. City Council direct the Executive Director, Housing Secretariat, Chief Planner and Executive Director, City Planning, and Executive Director, Development Review, in consultation with the Chief Financial Officer and Treasurer, to develop and recommend for City Council approval in 2025 an appropriate implementation tool for the new Purpose-built Rental Homes Incentives stream, that includes securing the value of City benefits and rental tenure of projects.

5. City Council request that the Chief Financial Officer and Treasurer consider opportunities for adaptable funding approaches, through the process described in Part 4 above, to support the Purpose-built Rental Homes Incentives stream through a variety of growth-funding tools and revenue sources, and funding provided by provincial and federal governments intended for housing initiatives, in accordance with program requirements, for the purposes of supporting investments in growth-related infrastructure.

6. City Council request the Executive Director, Housing Secretariat and Executive Director, Development Review to report back to the Executive Committee before the end of 2025 on the results on the implementation of the new Purpose-built Rental Incentives Stream with recommendations to support the approximately 102,000 affordable and purpose-built rental homes currently proposed and not yet built in the City's development pipeline to reach construction start by 2030.

A New Multi-Residential Property (Municipal Reduction) Tax subclass

7. City Council adopt the New Multi-Residential Property (Municipal Reduction) Tax subclass (the "Subclass"), approve the Subclass eligibility criteria and amend City of Toronto Municipal Code Chapter 767, Taxation, Property Tax, to add the Subclass, all in accordance with Attachment 1 to this report (October 28, 2024).

8. City Council direct that the Chief Financial Officer and Treasurer report back to City Council through the 2025 budget process on a recommended rate reduction of 15% for the New Multi-Residential Property (Municipal Reduction) Tax Subclass of the municipal portion of the existing New Multi-Residential Property Class rate.

9. City Council direct the City Clerk to give written notice of the By-law adopting the New Multi-Residential Property (Municipal Reduction) Tax subclass for the City of Toronto to the Municipal Property Assessment Corporation.

10. City Council direct the Chief Financial Officer & Treasurer to engage the Municipal Property Assessment Corporation to request that properties in the New Multi-Residential Property (Municipal Reduction) Tax Subclass continue to benefit from the rate reduction in future reassessments.

City Support for 7,000 rental homes including at least 1,400 affordable rental homes

11. City Council authorize the Executive Director, Housing Secretariat to immediately release a Call for Applications under the new Purpose-built Rental Homes Incentives stream described in this report, to identify 7,000 rental homes, including at least 1,400 affordable rental homes, in eligible rental housing projects, and to approve:
    a. City benefits available under the Rental Housing Supply Program to eligible affordable rental homes within the approved projects, including capital funding, exemptions from development charges, parkland dedication fees, community benefits charges, if not already exempted by provincial legislation, and the waiver of planning application and building permit fees.
    b. A deferral of development charges payable by the purpose-built rental units within the approved projects in accordance with Recommendation 13, below.

12. City Council authorize the Executive Director, Housing Secretariat to negotiate and execute, on behalf of the City, any agreements or documents necessary including municipal housing facility agreements (the City's Contribution Agreement), with the appropriate legal entities for the developments approved through the Call for Applications described in Part 11 above, to secure the financial assistance for the development and operation of the affordable rental housing, on terms and conditions satisfactory to the Executive Director, Housing Secretariat, and approved by the Chief Financial Officer and Treasurer, and in a form approved by the City Solicitor.

13. City Council authorize the Executive Director, Housing Secretariat, in consultation with the Chief Financial Officer and Treasurer, to enter into agreements, pursuant to section 27 of the Development Charges Act, to defer the payment of development charges payable in relation to purpose-built rental units within projects approved through the Call for Applications described in Part 11, above, for as long as they remain as purpose-built rental containing at least 20% affordable units and on such other terms and conditions as may be satisfactory to the Executive Director, Housing Secretariat and in a form satisfactory to the City Solicitor.

14. City Council authorize the Executive Director, Housing Secretariat and any other member of staff of whom it is requested, to enter into a non-disclosure or similar agreements, on terms and conditions satisfactory to the Executive Director, Housing Secretariat and in a form approved by the City Solicitor, with the appropriate legal entities for the developments approved through the Call for Applications described in Part 11 to allow information with respect to the developments to be provided to City staff.

15. City Council authorize the Executive Director, Housing Secretariat to execute, on behalf of the City, any security or financing documents required by the appropriate legal entities for the developments approved through the Call for Applications described in Part 11 above to secure construction and conventional financing and subsequent refinancing, including any postponement, tripartite, confirmation of status, discharge or consent documents where and when required during the term

of the City Contribution Agreement, as required by normal business practices, and provided that such documents do not give rise to financial obligations on the part of the City that have not been previously approved by City Council.

16. City Council direct the Executive Director, Housing Secretariat, to consult with the President and Chief Executive Officer, Toronto Community Housing Corporation, and Chief Executive Officer, CreateTO, to assess applications from in-flight housing projects on City-owned and City-controlled land under the Purpose-built Rental Housing Incentives stream, in consideration of other financial support provided by the City to these developments.

17. City Council approve changes to the Rental Housing Supply Program, as outlined in Attachment 2 to this report, to further unlock purpose-built rental homes including affordable rental homes.

18. City Council direct the Executive Director, Housing Secretariat, in consultation with the Deputy City Manager, Development and Growth Services and Chief Financial Officer and Treasurer, to report directly to the December 17-19, 2024, meeting of City Council with updates from the Call for Application process referenced in Part 11 above, including any further approvals necessary to approve additional affordable rental homes.

FINANCIAL IMPACT

The recommendations in this report are anticipated to significantly increase the construction of new purpose-built rental and affordable rental housing in Toronto, including activating projects which otherwise would be delayed or not proceed altogether. For a comprehensive view of the financial impacts, please refer to Attachment 3.

This report proposes City, provincial and federal support for approving 20,000 new rental homes including a minimum of 4,000 affordable rental homes, and up to 16,000 purpose-built rental homes, as summarized in Table 2 below.

Table 2: Summary of financial impact to deliver 20,000 new rental homes including 4,000 affordable rental homes

Phase	Housing Units	Benefits (Funding & Incentives) Proposed Per Unit	Financial Impact to Orders of Government
Phase 1 – City-Supported Quick Start (7,000 rental homes total, to start construction by end of 2026)	1,400 affordable rental homes	Full package of incentives as outlined in Recommendation 11a ($97,264 per unit)	City – foregone revenue
		Up to $260,000 in grant funding (existing benefit)	City – existing funding sources

Phase	Housing Units	Benefits (Funding & Incentives) Proposed Per Unit	Financial Impact to Orders of Government
	5,600 purpose-built rental homes	Indefinite deferral of development charges ($37,636 per unit)	City – foregone revenue
		15% property tax rate reduction to existing New Multi-Residential Property rate – 35-year period ($20,396 per unit)	City – foregone revenue
Phase 2 – Subject to Intergovernmental Support (13,000 units total)	2,600 affordable rental homes	Full package of incentives as outlined in Recommendation 11a ($97,264 per unit)	City – foregone revenue
		Up to $260,000 in grant funding (existing benefit)	Equally cost-shared between three orders of government (City / provincial / federal)
	10,400 purpose-built rental homes	Financial benefit equivalent to value of development charges ($37,636 per unit)	Request for provincial Build More Homes Rebate
		15% property tax rate reduction to existing New Multi-Residential Property rate – 35-year period ($20,396 per unit)	City – foregone revenue
		Additional 85% property tax rate reduction to result in full property tax exemption ($115,578 per unit with upfront investment of $59,697 required)	Request for provincial Build More Homes Rebate

Importantly, actions proposed in this report will ensure the City meets federal and provincial objectives to increase housing starts and is better positioned to secure federal and provincial funding that can then be invested in the delivery of non-market, affordable, and RGI housing. To date the City has received $114 million through the Building Faster Fund (BFF) and $117.7 million through the Housing Accelerator Fund (HAF). The actions recommended in this report will increase the City's ability to meet these targets and secure capital funding under the HAF and BFF for housing and infrastructure over the next three years.

New Multi-Residential (Municipal Reduction) Property Tax Subclass

If adopted, properties that fall within the New Multi-Residential (Municipal Reduction) Property Tax Subclass (Subclass) will receive a tax rate reduction for a 35-year period of 15% to their annual municipal property taxes, including the City's budgetary tax rate and to the City Building Fund levy rate, in comparison to the existing New Multi-Residential Property Class rate. Any new multi-residential developments that receive a building permit after the enactment of the subclass bylaw will automatically qualify for the discounted rate. Future year operating budgets would be impacted as new properties are added to the City's assessment roll.

From 2019 to 2024, an average of 24 buildings per year were added as New Multi-Residential properties with an average cumulative Current Value Assessment (CVA) of $1.12 billion. At the current municipal tax rate, this equates to $6.28 million annually in revenue. Based on 2024 figures, it is estimated that a 15% rate reduction would create an annual impact of $0.94 million in foregone assessment growth revenue, subject to the level of development activity and future year tax rates. This amount would be an annually recurring revenue loss, which would increase over time should new developments be added to the assessment roll and/or should annual New Multi-Residential Property Class tax rates increase over time as the absolute value of the 15% discount would become larger.

While financial benefits to the developments will vary significantly based on their individual CVAs, for illustrative purposes based on 2024 property tax rates and a CVA of $405,000, a unit currently receiving a $2,277 annual property tax bill would receive a discount of $342 in 2024. Over a 35-year period, considering construction timelines and assuming annual rate adjustments, this discount would equate to approximately $20,396 per unit.

Estimated Financial Impact of Activating 7,000 Rental Homes in Phase 1 (Comprised of 5,600 New Purpose-Built Rental Homes and 1,400 Affordable Rental Homes)

To further address the shortage of purpose-built rental homes while ensuring projects also deliver 20% affordable rental homes, this report requests Council approve a new Purpose-Built Rental Homes Incentives stream, and to provide eligible projects with City benefits in the form of funding and incentives affordable rental homes, and a deferral of development charges otherwise payable in relation to the purpose-built rental homes. These benefits will be in addition to a property tax discount that will be available to new purpose-built rental homes described above, subject to approval of this report.

Table 3 outlines the estimated financial impact of providing development charge deferrals and property tax reductions for 5,600 purpose-built rental homes to be delivered by private housing organizations. In total, the estimated financial impact is $325.0 million, or $58,032 per purpose-built rental home. This includes $37,636 (equivalent to the value of development charges after excluding existing discounts or exemptions are applied), and $20,396 (to reflect property tax rate reductions over a 35-year period) as outlined in Table 3 below.

The $20,396 per unit property tax impact represents the undiscounted value that would be required over a 35-year period. Leveraging long-term financial forecasting assumptions from the Toronto Investment Board, to offset this amount, the City would require an upfront investment of $59.0 million today (or $10,535 per unit), to enable annual withdrawals in equivalent offsetting amounts over the duration of the rate reduction, to break even.

These amounts are estimates only, with actual financial impacts to be determined at the time of application based on applicable rates and charges.

Table 3– Estimated financial impact of activating 5,600 new purpose-built rental homes

Estimated Value of Benefits[1]	Per Unit	5,600 Purpose-built Rental Homes ($ millions)
Value of Development Charges	$37,636	$210.8
15% Property Tax Rate Reduction for new Purpose-Built Rental (35 years) [2]	$20,396	$114.2
Total	**$58,032**	**$325.0**

Assumptions for estimating the value of incentives:
1) Calculations based on unit mix of 25% studio, 45% 1 bed, 20% 2 bed, 10% 3 bed units. Calculated using 2024 rates.
2) Average property tax reduction value based on an assumed CVA of $405,000 per unit.

Table 3 excludes existing foregone development charge revenue of $35,710 for a typical rental unit, which reflects a City-initiated rental discount ($23,050), a provincially-mandated rental discount ($8,060) and Bill 23's exclusion of housing services as an eligible DC service ($4,600). For 5,600 units, the cumulative impact of this foregone revenue is estimated to be $200.0 million, in addition to the $210.8 million in Table 3.

Table 4 below outlines the estimated financial impact to the City of approving 1,400 affordable rental homes as part of this new program.

Table 4 – Estimated financial impact of activating 1,400 new affordable rental homes

Estimated Value of Benefits[1]	Per Unit	1,400 Affordable Rental Homes ($ millions)
Estimated Fees & Charges Exemptions[2]	$2,116	$3.0
Estimated Value of 40-year Property Tax exemption[3]	$95,148	$133.2
Total	**$97,264**	**$136.2**

Assumptions for estimating the value of incentives:
1) Calculations based on unit mix of 25% studio, 45% 1 bed, 20% 2 bed, 10% 3 bed units. Calculated using 2024 rates.
2) Includes value of planning and building permit fees. Excludes exemption of development charges, parkland dedication, and community benefits charge as required through the Development Charges Act/Bill 23.

3) Average property tax reduction value based on an assumed CVA of $231,439 per unit.

The 7,000 new rental homes in Phase 1 proposed in this report could be delivered by both non-profit and for-profit housing organizations. However, non-profit organizations that meet the provincial criteria under the *Development Charges Act* already receive an exemption from development charges, community benefits charges, and parkland dedication fees for their residential developments. Under the *Development Charges Act*, the developers of non-profit housing developments are not required to enter into agreements with the City limiting the City's ability to secure the value of benefits or the affordability or rental tenure of projects.

The City of Toronto's capacity to absorb the financial impact associated with supporting new purpose-built rental homes, beyond those described above, without adversely affecting planned and essential capital infrastructure projects is limited due to existing fiscal constraints which have been further exacerbated by the legislative changes introduced through Bill 23. Further revenue losses could require the City to reprioritize planned infrastructure projects, potentially limiting Toronto's capacity to support new housing with necessary services.

Achieving 13,000 New Rental Homes in Phase 2 Through Enhanced Support from the Federal and Provincial Governments

Provincial Build More Homes Rebate for 10,400 Purpose-built Rental Homes

As part of this report, staff are recommending City Council request the provincial government to provide a Build More Homes Rebate to the City for an additional 10,400 new purpose-built rental homes to be delivered through the proposed Purpose-built Rental Homes Incentives stream, estimated at $1.0 billion.

This amount reflects the value of development charges payable on new purpose-built rental homes ($391.4 million), and, to ensure project viability for future purpose-built rental development, recommends that a rebate be provided that would enable the City to fully waive property taxes for future projects. While the City can support an annual ongoing rate reduction of 15%, the provincial government is requested to provide the remaining value of 85%. Based on long-term financial forecasting assumptions, the City would require an upfront investment of $620.9 million today to enable annual withdrawals in equivalent offsetting amounts over the duration of the benefiting 35-year period. Overall, the requested rebate is $97,333 per new unit.

Table 5: Build More Homes Rebate from Provincial Government Summary (Phase 2)

Description	Estimated Financial Value Per Unit	Estimated Financial Value for 10,400 Units ($ millions)
Full Rebate: Value of Development Charges	$37,636	$391.4

Description	Estimated Financial Value Per Unit	Estimated Financial Value for 10,400 Units ($ millions)
Partial Rebate: 85% of Annual Property Taxes Waived (Reflects Upfront Investment Required)	$59,697	$620.9
Total Build More Homes Rebate Request	**$97,333**	**$1,012.3**

It is important to note that any additional waiver of property taxes beyond the 15% discount available through the subclass will not be automatic and may require a detailed, open book financial review including by the City's independent consultant.

Federal Low-Cost Financing

Federal low-cost financing is also required to deliver new rental homes particularly where 20% of the homes are affordable rental. A number of rental development organizations have shared with the City that CMHC has reported insufficient capacity for additional loans in 2025. Therefore, this report recommends City Council request the federal government immediately allocate a portfolio of $7.3 billion in CMHC low-cost financing at competitive rates and terms, over the next three years, to projects that would be supported under the new Purpose-built Rental Homes Incentives stream. This report also requests the federal government work with the City to accelerate the financing process for these 20,000 new rental homes, to ensure the application and underwriting process is completed from start to finish in 90 days.

Affordable Housing Grants

Finally, each order of government is requested to provide the City with funding equivalent to one-third of the grant contribution required for the 2,600 total affordable rental homes in the rental developments to be supported by this program in Phase 2. This amounts to $225.3 million in grant funding from each of the provincial and federal governments (for up to $260,000 per affordable rental home).

EQUITY IMPACT

The HousingTO 2020-2030 Action Plan envisions a city in which all residents have equal opportunity to develop to their full potential. The HousingTO Plan is also centred on a human rights-based approach to housing. This approach recognizes that housing is essential to the inherent dignity and well-being of a person and to building healthy, inclusive and sustainable communities. Through the Toronto Housing Charter, City Council adopted a policy to move deliberately to further the progressive realization of the right to adequate housing. This Charter also recognizes that furthering the progressive realization of the right to adequate housing requires all levels of government, and that City actions to advance a human rights-based approach to housing are to be taken within the City's financial and jurisdictional capacity to do so.

The proposed new Purpose-built Rental Homes incentives stream is proposed to bring all levels of government together to accelerate supply of rental homes that diverse Toronto residents need. While the City is prepared to take the first step and address 7,000 new rental homes including 1,400 affordable homes, it does not have the capacity to deliver a program to achieve 20,000 new rental homes on its own and requires other orders of government to bring their financial capacity to the table to enable a generational shift in the housing system to build more rental homes.

Ensuring all new City-supported purpose-built rental developments include 20% affordable rental housing will increase the opportunity for vulnerable and marginalized individuals, including Indigenous Peoples, Black and other racialized people, seniors, women, people with disabilities and members of the 2SLGBTQ+ community to access safe, healthy and adequate homes. More rental housing opportunities for essential workers and families will also be created through the recommended changes to the Rental Housing Supply Program.

The proposed support for new purpose-built rental developments contained in this report complement other programs and policies that provide even more City benefits to other housing types along the housing continuum. The City prioritizes the greatest levels of investment and support for projects and community housing partners that deliver homes affordable for residents in greatest need, including rent-geared-to-income and supportive homes for people experiencing homelessness.

Safe, adequate affordable housing is an important determinant of health. It is also the cornerstone of vibrant, healthy neighbourhoods and supports the environmental and economic health of the city, region, province, and country as a whole.

DECISION HISTORY

At its meeting of June 26, 2024, City Council adopted Item PH13.8 – "Launching the Rental Housing Supply Program" and approved a new Rental Housing Supply program to support the delivery of more RGI and affordable rental homes, and rent-controlled homes delivered by the community housing sector; capital funding for 18 affordable rental and RGI housing projects; and the development of a new Community Housing Pre-development Fund. Council also directed staff to report back on consultations with development industry stakeholders on additional options to support the delivery of purpose-built rental homes, including in partnership with federal and provincial governments.
https://secure.toronto.ca/council/agenda-item.do?item=2024.PH13.8

At its meeting of July 16, 2024, Executive Committee received for information Item EX16.8 – "Considerations for Implementing a New Multi-Residential Property (Municipal

Reduction) Tax Subclass" from the Chief Financial Officer and Treasurer. The report outlined potential options for introducing a new tax subclass aimed at reducing property tax rates for new multi-residential properties in Toronto, along with financial and policy implications.
https://secure.toronto.ca/council/agenda-item.do?item=2024.EX16.8

At its meeting of February 28, 2024, Planning & Housing Committee adopted Item PH10.4 – "Expanding Housing Options in Neighbourhoods – Garden Suites Monitoring Program – Update" and directed staff to report back on measures to scale up and expedite approval and construction of garden suites, laneway suites, and multiplexes, including with affordable housing.
Agenda Item History - 2024.PH10.4 (toronto.ca)

At its meeting of November 8 and 9, 2023, City Council adopted Item EX9.3 – "Generational Transformation of Toronto's Housing System to Urgently Build More Affordable Homes". The report outlines several recommended actions, and highlights initiatives underway, which will make a generational change to transform and strengthen Toronto's housing system and expedite delivery of the HousingTO and Housing Action Plan targets. https://secure.toronto.ca/council/agenda-item.do?item=2023.EX9.3

At its meeting of November 8, 2023, City Council adopted Item PH7.7 – "City Comments on Provincial Bill 134 Proposed Definition of Affordable Residential Unit" which supported in principle, the Government of Ontario's direction in Bill 134 to adopt an income-based approach for the definition of affordable housing.
https://secure.toronto.ca/council/agenda-item.do?item=2023.PH7.7

At its meeting of September 6, 2023, City Council adopted Item EX7.2 – "Urgently Building More Affordable Homes", and directed the Deputy City Manager, Development and Growth Services, among other things, to create a plan to achieve 25,000 new rent-controlled homes, in addition to the City's previous HousingTO 2020-2030 Action Plan (HousingTO Plan) target of 40,000 affordable rental homes. Council also requested a report back on an effective alignment of resources, mandates, structure, and personnel to achieve the plan.
https://secure.toronto.ca/council/agenda-item.do?item=2023.EX7.2

At its meeting of May 10, 2023, City Council adopted Item PH3.16 – "Expanding Housing Options in Neighbourhoods: Multiplex Study – Final Report" and directed staff to report back on the feasibility of a program that incentivizes owners of multiplexes to make one of the four units affordable to rent or purchase.
Agenda Item History - 2023.PH3.16 (toronto.ca)

At its meeting of March 21, 2023, the Executive Committee adopted Item EX3.1 – "2023 Housing Action Plan" which provided a workplan to support delivery of the Housing Action Plan, and to meet or exceed the provincial delivery target of 285,000 new homes over the next 10 years.
https://secure.toronto.ca/council/agenda-item.do?item=2023.EX3.1

At its meeting of November 23, 2022, City Council adopted CC1.2 – "Update on Bill 23, More Homes Built Faster Act, 2023" which requested that the Province of Ontario not remove housing services from development charges or alternatively, create a municipal compensation fund to compensate municipalities for the impacts of Bill 23 on municipal growth funding revenues.
https://secure.toronto.ca/council/agenda-item.do?item=2023.CC1.2

At its meeting of September 30, 2020, City Council adopted with amendments Item PH16.5 - "Improving Outcomes for Toronto Residents through Implementation of HousingTO 2020-2030" which provided a detailed Implementation Plan for the actions in the HousingTO Action Plan. The Open Door program is a key program supporting delivery of the HousingTO 2020-2030 Action Plan.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.PH16.5

At its meeting of December 17 and 18, 2019, City Council, adopted with amendments Item PH11.5 - "HousingTO 2020-2030 Action Plan" as the framework to address Toronto's housing and homelessness challenges by 2030. This Plan includes a number of actions and targets to address critical needs across the housing spectrum including emergency shelters and transitional housing, social and supportive housing, market and affordable rental housing and homeownership. The City Council Decision can be found here: http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.PH11.5

COMMENTS

A. Toronto's Rental Housing Market Today

Toronto's housing crises are decades in the making, and now impact residents across the housing spectrum and income bands. Housing affordability continues to acutely impact low-income households, however it is also increasingly making life unaffordable in Toronto for middle income earners. These housing crises are particularly evident and acute in the City's rental market where decades of underinvestment in new purpose-built rental homes and instead a reliance on rental supply delivered through new condominium development have worsened housing stability for Toronto's renters. A robust supply of purpose-built rental homes is a core component of a healthy housing system. As the City takes action to deliver new rent-geared-to-income, supportive, and affordable homes on its own land, working with partners, including the private sector, to enable purpose-built rental homes on their own lands that also deliver a portion of affordable rental housing remains a vital and outstanding priority to address.

Supply of Purpose-Built Rental Homes is Historically Constrained

Housing market data over the last several years indicate structural challenges in Toronto's housing system inhibiting the supply of new purpose-built rental. On a per capita basis, Toronto has a lower supply of existing purpose-built rental apartments than Montreal, Ottawa, and Edmonton.

Over the past ten years, Toronto's new supply of rental homes has been delivered largely by the condominium market as units are purchased and rented out by investors. Also known as the "secondary market" these homes are less secure in their tenure than purpose-built rentals, and on average have rental rates that are over 40% higher than the purpose- built rental market. The City's supply of rental homes has grown by 30% over the past ten years (2013 – 2023), however 85% of this supply growth has been in the secondary market. Currently, over 40% of Toronto's condo supply is rented, a reflection of decades of market-driven rental housing supply and inadequate investment and support from governments to facilitate the development of purpose-built rental homes.

Since 2022, higher interest rates and financing costs, inflation, and increasing construction costs have driven a significant slowdown in new housing development, and a further drop in supply of both purpose-built rental and condominium housing is on the horizon. As of 2023 the Toronto CMA's supply of purpose-built rental homes under construction per 1,000 population was lower than the 5 next largest CMAs in Canada (Montreal, Vancouver, Edmonton, Calgary, Ottawa according to CMHC and Urbanation data). Further, September 2024 data from the Canada Mortgage and Housing Corporation (CMHC) indicates housing starts in the City of Toronto fell 35% (by over 9,000 units) during the first nine months of 2024 relative to 2023. Industry data indicate approximately 18,000-26,000 purpose-built rental homes are currently stalled due to poor market conditions.

Toronto's condo market has also stalled as a result of difficult economic conditions. As of Q2 2024, year-to-date new homes pre-sales in Toronto's ownership market are at approximately 20% of the 10-year average. Given the historic reliance on the condo market to create secondary rental units, a dramatic drop in condo supply will have a cascading effect on the availability of rental homes.

Demand for New Purpose-Build Rental Homes is Forecast to Grow

Concurrent with the low levels of purpose-built rental supply, demand for rental housing has continued to grow. Nationally, CMHC estimates Canada needs 3.5 million additional housing units by 2030 to meet demand and restore affordability. In the GTA, rapid population growth is anticipated to bring three million additional residents by 2046, a 40% increase over 2023, according to the Ontario Ministry of Finance. Importantly much of the GTA's population growth is driven by immigration, and non-permanent residents who come to Canada to work or study. These populations are relatively young compared to the Ontario population; almost one-third of Ontario residents aged 20-24 in 2023 were non-permanent residents. According to recent industry reports, these population groups have immediate impacts on rental demand as new immigrants and non-permanent residents rent at higher rates than Ontario-born residents, at 64% and 79%, respectively.

With high interest rates, mortgage costs, and home purchase prices, demand for rental homes is expected to continue and is in part being driven by a less accessible home ownership market. Home ownership levels in the GTA are expected to continue falling to 2031, reaching a thirty year low of 62%. Taken together these and other demand pressures have led to industry experts estimating that the GTA will see 1.3 million renter households by 2031, a 41% increase over 2021.

Purpose-built rental developments provide homes for students, young families, and newcomers, and those working in key professions in the health care system, post-secondary education, the public service, and skilled trades, among others. These individuals often earn too high an income to qualify for a rent-geared-to-income or affordable rental home, but also find the ownership market out of reach. They include registered nurses, teachers, college instructors, land use planners, engineers, transit operators, and more.

B. Generational Shift in Government Support for the Rental Housing Market

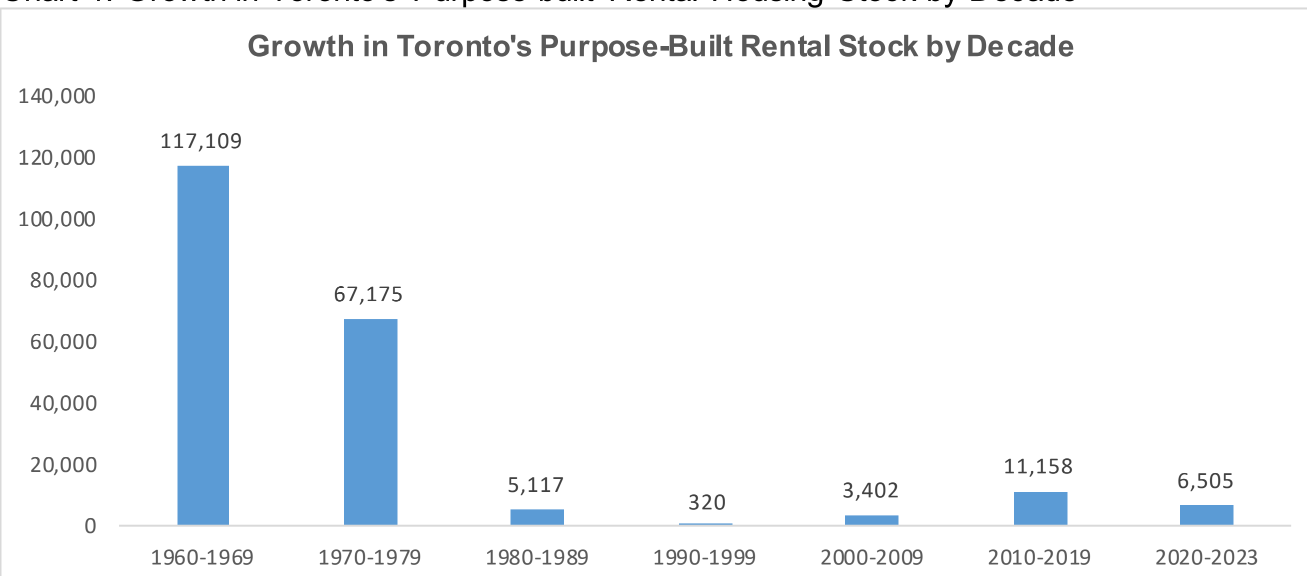
All orders of government across Canada have played various roles in shaping the housing market over the last several decades, contributing to both significant growth in rental housing supply in some decades and in other decades depressing rental housing supply. These include mechanisms such as structuring mortgage markets for, and direct lending to, purpose-built rental developments; tax policies that reduce government tax revenues to incentivize purpose-built rental housing, and; local planning and approval reforms to increase the financial viability of rental housing developments.

Governments in Canada have been engaged in one or more of these mechanisms, though typical government roles emerged in the post-war era. The federal government, with its higher fiscal capacity and powers to influence financial markets, focussed on structuring of mortgage markets and direct low-cost lending to rental developments. Provincial governments, including Ontario, have also provided direct lending (low-cost loans and grants) and tax subsidies, often supporting federal initiatives. Municipal governments have used both tax incentives (property tax and development charge exemptions), and reforms to planning and approvals systems to encourage purpose-built rental developments.

There are many examples of programs that leveraged these mechanisms, particularly in the post-war era and up to the 1980s. The Limited Dividend Program was a federal direct lending program that ran from 1946 through 1975. This program provided long-term (50-year) loans, at reduced interest rates (2% below-market rates), with high loan-to-value ratios (95% LTV) to purpose-built rental housing projects. In exchange, purpose-built rental developers limited annual returns (to 5%) and rent levels (including rent control, modest rents, and restricted access to low- and moderate-income households). The Limited Dividend program supported over 100,000 purpose-built rental homes, with 20,000 in Metro Toronto. The Multiple Unit Residential Building program (MURB) was a federal tax incentive program that operated from 1974 to 1981. MURB allowed investors to deduct the depreciation of rental buildings from non-rental sources of income, making investments in purpose-built rental housing development more attractive, though without affordability requirements. Across Canada, 195,000 purpose-built rental homes were built with the support of MURB (alongside other government programs).

As illustrated in Chart 1 below, these and other government programs played a significant role in facilitating the highest level of purpose-built rental housing construction seen in Toronto in almost a century. The elimination in the 1980s and early 1990s of programs designed to facilitate purpose-built rental development, particularly at the federal level, had a drastic impact on the supply of new rental homes. While recent reinvestment in rental housing construction through the National Housing Strategy launched in 2015 have led to a minor rebounding in rental development, the levels of construction still are dwarfed by the amount of new rental housing being built under a more robust set of government funding and financing programs through the 1960s and 1970s.

Chart 1: Growth in Toronto's Purpose-built Rental Housing Stock by Decade



Sources: Data Prepared by the [Greater Toronto Apartment Association](#) *for the period from 1960-2019, CMHC data accessed for 2020-2023 period*

C. Consultation and Rental Housing Feasibility Analysis

On June 26, 2024, when adopting the new Rental Housing Supply Program that outlines critical City action to create new RGI and affordable rental homes, City Council directed staff to undertake further consultation and analysis related to additional incentives for purpose-built rental, including with purpose-bult rental developers and funding and financing partners including CMHC. Staff have undertaken engagement with a range of rental housing developers, with the Building Industry and Land Development association (BILD), and with CMHC, to discuss the current state of the rental housing market and the actions governments can take to support the rental housing sector. Further, staff have explored additional opportunities to support and unlock new development, including engagement with the Canada Infrastructure Bank (CIB).

Industry stakeholders emphasized a number of key challenges in the rental housing market including population growth that is not matched with housing supply efforts, difficult economic conditions, a lack of government support that have made rental projects unviable, leading to a growing backlog of 18,000 to 26,000 rental homes that have stalled (i.e. not advanced through site plan or building permit stages) due to such conditions. They emphasize the need for concerted and coordinated effort from all three orders of government to address the housing crisis.

Through these consultations, representatives from BILD communicated that the approach to deliver feasible purpose-built rental housing required:

- A full exemption of development charges for all units;
- A full exemption from property taxes for all units, for a period of at least 20 years; and
- That no affordable housing or rent control provisions be required as part of projects.

BILD representatives and industry stakeholders also stressed concerns for the stalled condo market and requested the City provide incentives in the form of development charge exemptions to condo units to further support housing supply and choice. The intent of this condo request was to support 11,595 units that are financially unviable and stuck in the pipeline to reach construction start.

In order to better assess the current rental housing market and its impact on project feasibility, the City retained the services of an independent third-party housing development and economics consulting firm, N. Barry Lyons Consulting (NBLC). This team brought extensive experience in the economics of new housing development including supporting both private and non-profit housing development projects. NBLC worked directly with City staff to develop a rental housing feasibility tool which provided a detailed analysis of the financial proforma of new rental housing projects under current economic conditions across Toronto. NBLC worked closely with industry stakeholders, including BILD and rental developers, to validate the assumptions and methodology of the model and ensure the test project it assessed reflected market conditions.

Staff analysis of the rental housing feasibility tool shows the financial viability challenges of purpose-built rental housing developments in all geographic areas of the city, even after accounting for GST/HST waivers and existing development charge rental discounts. The model also demonstrated that any affordable rental housing requirements (even after accounting for a full suite of City benefits for affordable rental housing) had a negative impact on the financial viability of purpose-built rental housing projects.

The development of new affordable rental housing is a policy priority for the City. Staff analysis found that the financial viability of purpose-built rental housing projects that include at least 20% of units as affordable rental for at least 40 years can be realized when all orders of government stack funding, low-cost financing, and exemptions of development fees and charges for both affordable and purpose-built rental homes within the development.

The recommended actions and program design contained in this report are the result of engagement with stakeholders, the analysis of the City's independent consultant, analysis of the financial impact of any new benefits to the City, and consideration of the roles of all orders of government in responding to the housing crisis.

D. Re-activating the Role of Government in Supporting Purpose-Built Rental Housing

When adopting the provincial Pledge to achieve 285,000 new homes by 2031, City Council requested staff to report back to Council with further steps to support the rental homes then identified in the City's development pipeline, and to determine the proportion of the Housing Target that needs to be composed of affordable rental and ownership homes to meet the demand for affordable housing options.

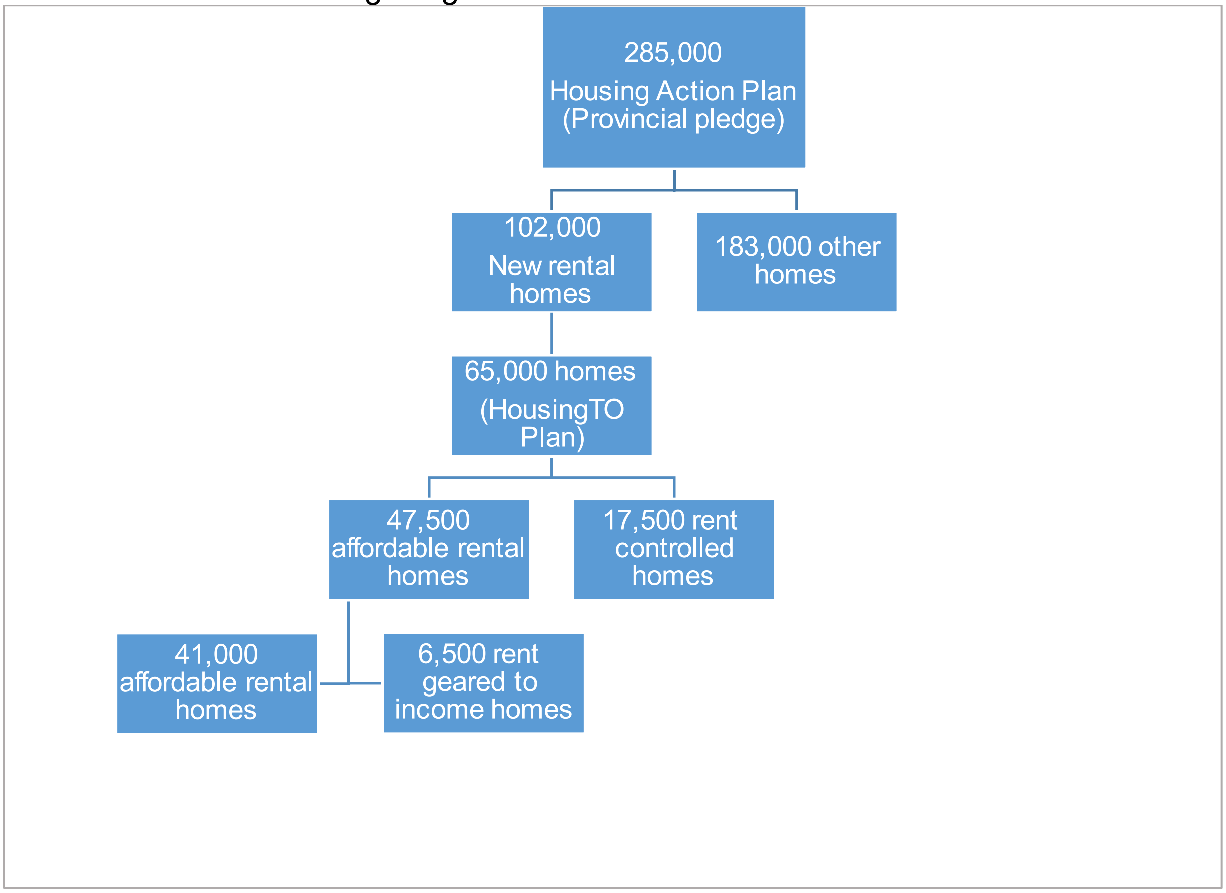
In November, 2023, City Council adopted EX9.3 and approved a suite of actions to support a generational transformation of Toronto's housing system to build more rental homes affordable to low- and moderate-income residents, through partnership with other governments. A key plank of this report was enhancing the way the City manages its own lands, and prioritizing them for affordable housing outcomes particularly with the non-market sector. Through that report, Council expanded its affordable rental housing target, added a new target for RGI and rent-controlled homes, identified over 50 additional City sites that would be leveraged to deliver housing within complete communities, and established a new public developer pilot to test an enhanced role for the public sector on five of these sites.

To deliver the volume of new rental homes needed to address the growing housing demand, it is critical to work with the non-profit and private housing sectors to activate their lands. As outlined in Section B, previous generations experienced the benefits of government programs that effectively incentivized delivery of purpose-built rental homes including by the private housing sector.

This report directs staff to take the first step towards supporting 20,000 rental homes through development of the new Purpose-built Rental Homes Incentives. It also directs relevant staff to report back to Executive Committee before the end of 2025 on the results of this program, including considerations for a permanent program that can support the estimated 102,000 rental homes currently in the City's development pipeline.

The chart below illustrates how this new target relates to the Provincial Pledge as well as the City's rent-controlled, affordable rental and RGI targets.

Chart 2: Toronto's Housing Targets



Delivering on this target of new rental homes for Toronto will require participation of all orders of government. The following section of this report outlines the first actions the City is prepared to take and proposes a framework for the provincial and federal governments to join Toronto in making this goal a reality.

E. City Support for New Purpose-Built Rental Homes

The City is prepared to take a number of actions to lead the way in building a housing system that delivers the new rental homes Toronto's current and future residents and economy needs to thrive. However, the City cannot act alone. In 2019, City Council adopted the Toronto Housing Charter through which the City adopted a policy to move deliberately to further the progressive realization of the right to adequate housing, within its jurisdictional capacity to do so. This emphasizes the need for other governments to bring their significantly greater powers and financial capacity to the table to address the housing crisis for current and future generations.

New Tax Incentives for Purpose-built Rental Housing

Through this report staff recommend City Council approve actions to support purpose built rental homes through the adoption of the New Multi-Residential (Municipal Reduction) Property Tax Subclass. This will ensure that any property that is issued a building permit going forward, and would usually fall within the New Multi-Residential Property Class, will automatically be considered as part of the new Subclass.

In July, 2024 Executive Committee received a report for information from the Chief Financial Officer and Treasurer outlining the opportunity, created through provincial legislative changes, for the City to introduce a new property tax subclass for new multi-residential buildings. This tool would enable the City to provide up to a 35% property tax discount of the municipal portion of the existing New Multi-Residential Property Class rate, for a period of up to 35 years. While the legislation allows for a reduction up to 35%, staff are recommending a rate reduction of 15% in alignment with other taxation and financing policies, as detailed below, and in consideration of what can be sustained by the City of Toronto. This 15% discount would be in addition to the existing preferential rate that properties in the New Multi-Residential Tax Class receive relative to the Multi-Residential Tax Class. In 2024, the New Multi-Residential rate is 0.56% while the Multi-Residential rate was 1.01%, including the municipal budgetary levy and City Building Fund levy. Had the new sub-class and associated 15% reduction been in effect for 2024, the New Multi-Residential (Municipal Reduction) Subclass would be subject to a 0.48% tax rate for this year.

Through this report staff recommend Council approve the creation of this new Subclass and provide direction to introduce an associated municipal tax rate reduction for eligible developments of a recommended 15% through the 2025 budget process. This 15% reduction will apply to all new rental housing developments and is an administratively efficient municipal tax tool to support and incentivize new rental housing growth. If the recommended Subclass is implemented, staff will monitor the effectiveness of the program to determine the ongoing and/or permanent need for a reduced rate to incentivize new developments in the future, in consideration of development activity and trends. Staff will also monitor future year tax rates established through future budget processes to ensure that the 15% discount is retained, relative to the existing New Multi-Residential Property Class. This means that property tax rates would change at the same rate each year between the New Multi-Residential Class and the proposed Subclass, to retain the ratio required of a 15% reduction.

The recommended rate reduction of 15% is consistent with the Council adopted commercial tax rate reduction applied to properties within the Small Business Property Tax Subclass. Further, the City has adopted a policy which ensures a maximum of 15% of property taxes support the City's debt servicing costs, ensuring 85% of property tax revenue is available to support ongoing operating needs related to City services. Adopting a harmonized discount rate for new multi-residential buildings allows for a fair and consistent approach across taxation and financing policies at the City and ensures that 85% of annual property tax revenue is still available to support City services and programs.

New Purpose-built Rental Homes Incentives Stream for 20,000 New Rental Homes

This report recommends a new Purpose-built Rental Homes Incentives stream under the City's recently approved Rental Housing Supply Program (RHSP) to support purpose-built rental homes that meet the following minimum eligibility requirements:

- Organization type: Private sector organizations, public organizations, and community housing providers are eligible.
- Affordability: A minimum of 20% of units in the proposed development must be affordable rental, and meet City requirements in terms of unit mix and unit sizes, as determined by the Executive Director, Housing Secretariat.
- Depth of Affordability: All affordable rental homes must meet the City's new RHSP program definition, which implements the City's recently adopted income-based definition of affordable housing.
- Duration: Affordable rental units and purpose-built rental must both be secured, and the affordability levels for the affordable units maintained for a target of 99 years and a minimum of 40 years.
- Start of Construction: To ensure the City's support leads to realizing housing starts, proponents receiving approval under this program will be required to achieve construction start on a rapid timeline as outlined in the Call for Applications. This would include securing any remaining planning approvals required. Should approved proponents fail to meet the construction start timelines, the incentives and City's commitment to the purpose-built rental homes may be withdrawn.

Projects that meet the minimum criteria above would be eligible for City benefits (funding and/or incentives) towards purpose-built rental homes in the development, as outlined in Table 3 in the Financial Impact Section, subject to an independent financial review if necessary. All affordable rental homes in the development would be eligible for incentives offered through the existing Rental Housing Supply Program as outlined in Table 4 in the Financial Impact Section, including development charge, parkland dedication fee, and community benefit charge exemptions, planning application fee and building fee waivers, and property tax exemptions, and may be considered for capital funding.

Recognizing the limited jurisdictional and financial capacity of the City, this report recommends City Council approve a first phase of 5,600 purpose-built rental homes through this new program with a request to the Province to join the City in supporting an additional 10,400 purpose-built rental homes through a second phase.

This report also directs relevant City staff to identify and report back to City Council for approval of an implementation mechanism for the new Purpose-built Rental Housing Incentives stream. Subject to adoption of this report, staff will report back to Council on an appropriate implementation approach to support 16,000 purpose-built rental homes in total. Staff will consider the possible use of a Community Improvement Plan for purpose-built rental housing, among other options.

Through the implementation process, proponents receiving these City benefits will be required to enter into binding agreements with the City to secure the value of City' contributions to purpose-built rental homes, as well as the tenure of the building as rental. Through the process of developing an implementation mechanism described above, in consultation with the Chief Financial Officer and Treasurer, staff will identify the potential to flexibly provide relief from growth funding related charges to achieve a combination of incentives for purpose-built rental projects that minimize financial impact to the City.

Aligning Rental Housing Supply Program parameters with federal housing programs

In consultations with the housing sector, the importance of aligning eligibility criteria of local and federal housing funding programs was highlighted. To ensure City-supported rental housing projects are aligned with CMHC programs and to facilitate access to federal funding and financing for housing organizations, this report also proposes changing eligibility for funding and incentives for affordable and rent-controlled housing, to a minimum of 20% of units (from current minimum of 30% of residential gross floor area) to align with CMHC funding programs including Apartment Construction Loan Program (ACLP). The City will continue to apply prioritization criteria that focus funding for projects that deliver at least 30% of units as affordable rental housing.

In addition, this report proposes amendments to program eligibility that will support Expanding Housing Options in Neighbourhoods (EHON) projects (i.e. projects with 10 units or less such as laneway and garden suites). This change involves removing the eligibility requirement related to the minimum percentage of affordable rental homes required to receive City incentives. With this change, any unit that meets the RHSP program criteria for affordable rental homes (e.g. depth and duration of affordability) will be eligible for incentives including waiver of planning application fees and building permit fees, and exemption from property taxes. This responds to previous Council direction and does not include incentives for non-affordable units.

F. Requesting a Greater Role for Provincial and Federal Governments in new Purpose-Built Rental Housing Supply

This report emphasizes the need for all orders of government to act in tandem to address the shortage of purpose-built rental and affordable rental homes. Key actions needed from other orders of government include:

- The province commit to enabling up to an additional 10,400 purpose-built rental homes to achieve construction start within three years of receiving program approval by providing the City with a Build More Homes Rebate equivalent to the value of development charges payable for the purpose-built rental homes, and the value of property taxes (beyond 15% reduction provided by the City to reach 100% exemption) to be provided to eligible purpose-built rental housing projects under the new Purpose-built Rental Homes Incentives Stream;

- The federal government immediately provide a three-year portfolio of low-cost financing to support the 20,000 purpose-built and affordable rental homes in Toronto described in this report, estimated at $7.3 billion; and
- To ensure at least 4,000 affordable rental homes are included in purpose-built rental housing projects, the provincial and federal government provide the City with grant funding of $225.3 million as a contribution towards the 2,600 new affordable homes in Phase 2.

An effective pathway to deliver these tri-government investments is through a Canada-Ontario-Toronto Builds program, modelled after the BC Builds program agreed between the governments of Canada and British Columbia. Through this report, the City continues to request the federal and provincial governments partner with Toronto to implement such a program that would deliver more rental homes that low and middle-income earners can afford, with a focus on four key outcomes:

- Align governments on the use of land, partnerships, and approvals to identify and expedite development projects from concept to construction;
- Provide greater certainty of funding and low-cost financing through a portfolio-based allocation for projects under the program;
- Secure favourable terms for funding and financing including contributions from all orders of government and lower interest rates, to improve financial viability of projects and deliver more affordable homes; and,
- Create a rapid and streamlined underwriting and approval process, to get shovels in the ground faster.

G. Implementation

Through this report staff recommend City Council endorse the development of the new Purpose-built Rental Homes Incentives stream for 16,000 new purpose-built rental homes, and a minimum of 4,000 affordable rental homes, in two phases. This approach is recommended so that eligible projects are rapidly identified and supported to secure financing and reach construction start, while also ensuring that future rounds of projects under the program are built on a sustainable foundation of tri-government support.

Phase One: Quick Start Call for Applications

Subject to the approval of recommendations in this report, City staff will immediately release the first Call for Applications under the Rental Housing Supply Program. This will include a rapid, time-limited call under the Purpose-Built Rental Homes Incentives stream for up to 7,000 new rental homes including at least 20% affordable rental homes (a minimum of 1,400). Projects must meet the minimum eligibility requirements outlined in Attachment 2, Table 1 to be considered for City benefits (funding and incentives) as outlined in the Financial Impact section in this report. Any requests for capital funding for the affordable rental homes in these projects will need to be made through the Rental Housing Supply Program funding application call.

As part of this process, the City will require the following information from applicants to confirm eligibility and collect project data to assist in program monitoring:

- Basic proponent and development project information, including land ownership information, corporate structure, confirmation the project meets minimum eligibility requirements, and whether the proponent is approved as a Frequent Builder by CMHC;
- Development financials including cost and revenue assumptions, and availability of construction financing (through CMHC or other sources);
- A development schedule indicating ability to achieve construction start by the end of 2026; and
- Additional project specific information that may be relevant, such as partnership with other orders of government or community housing organizations.

As this new program aims to provide certainty to rental developments, projects that demonstrate they meet the minimum eligibility criteria will be approved on a first-come first served basis. City staff reserve the right to require projects to undergo a third-party review by the City's independent consultant to validate project information as needed.

As the program is primarily intended to incentivize private land-owners, if proponents of in-flight projects on City-owned land apply, their approval will require an additional open book and third party financial review including consideration of all benefits the City may already be providing (e.g. financial support, land, incentives, funding and foregone revenue). The Executive Director, Housing Secretariat will consult the President and Chief Executive Officer, Toronto Community Housing Corporation, and Chief Executive Officer, CreateTO, when reviewing such applications

Given the urgent need to roll-out the new Purpose-built Rental Homes Incentives stream, this report proposes an interim approach for the first 5,600 purpose-built rental homes to be approved wherein the City will defer the development charges payable indefinitely, so long as they remain purpose-built rental homes. Proponents will be required to enter into a development charges deferral agreement to govern the terms of the deferral including repayment in the event of default which would include any attempt to convert the purpose-built rental homes to condominium. Default under the development charges deferral agreement would also trigger a default under the Contribution Agreement. Concurrently, staff will advance the development of a Community Improvement Plan or other implementation tool(s) to establish a permanent mechanism to exempt eligible projects from development charges.

City staff will bring a report directly to City Council at its meeting of December 17-19, 2024, with the results of the call for applications, including requests for any further authority required to approve additional affordable rental homes.

Phase Two: Ongoing Application Process Subject to Securing Sustained Tri-Government Participation

The City needs support from other orders of government to do more and the delivery of the additional 13,000 new rental homes, including 2,600 affordable rental homes, will be contingent on other governments meeting the requests contained in this report. The report recommends City Council request the Province join the City by providing a Build More Homes rebate to the City equivalent to the value of development charges payable for purpose-built rental homes under the program, plus the value of property taxes beyond the 15% reduction described in this report, up to a 100% exemption for purpose-built rental homes.

Delivering 20% affordable rental homes (2,600 homes) in addition to the 10,400 purpose-built rental homes in this stage also enables the City to provide City benefits towards the affordable rental homes in these projects. This report requests the provincial and federal government provide the City with grant funding of $225.3 million as a contribution towards the 2,600 new affordable homes in this phase. This tri-government alignment will enable the City to establish an ongoing application process for 13,000 rental homes, including a minimum of 2,600 affordable rental homes.

Finally, all 20,000 new rental homes proposed through the new stream will require access to a $7.3 billion portfolio of CMHC financing, including preferential financing terms such as lower interest rates, extended amortization periods, lower debt-coverage ratios, and other benefits.

Conclusion

Toronto's current rental housing crisis is decades in the making. All orders of government have a role in responding to this crisis and ensuring the housing system has sufficient new homes, especially rental homes, to meet the needs of Toronto residents now and for generations to come. This report proposes a new tri-government framework in the form of a Purpose-Built Rental Homes program, that will support the delivery of 20,000 new rental homes including at least 4,000 affordable rental homes. This new Program, subject to approval by City Council, will expand the impact of the recently approved Rental Housing Supply Program and ensure the City is prepared to support new rental housing development across the continuum, from rent-geared-to-income and supportive housing, income-based affordable rental homes, and purpose-built rental housing.

A first Call for Applications for eligible purpose-built rental projects under the expanded Rental Housing Supply Program will be launched immediately following approval by City Council. Given the rapid approach to delivering the first 5,600 purpose-built rental homes and a minimum of 1,400 affordable rental homes in Phase 1, staff will report back directly to the December 17-19, 2024 meeting of City Council with an update on the results of this call.

CONTACT

Abigail Bond, Executive Director, Housing Secretariat, 416-338-1143, Abigail.Bond@toronto.ca

Matt Hilder, Acting Director, Housing Policy & Strategy, Housing Secretariat, 416-392-6249, Matt.Hilder@toronto.ca

Mercedeh Madani, Manager, Housing Systems & Intelligence, Housing Secretariat, 416-397-4252, Mercedeh.Madani@toronto.ca

Lauren Birch, Director, Strategic Policy & Programs, Office of the Chief Financial Officer & Treasurer, 416- 392-4258, Lauren.Birch@toronto.ca

SIGNATURE

Jag Sharma
Deputy City Manager, Development & Growth Services

Stephen Conforti
Chief Financial Officer & Treasurer

ATTACHMENTS

Attachment 1: New Multi-Residential Property (Municipal Reduction) Subclass

Attachment 2: Proposed Enhancements to the Rental Housing Supply Program

Attachment 3: Summary of Total Financial Impacts for Phase 1 and Phase 2

Attachment 1 - New Multi-Residential Property (Municipal Reduction) Subclass

1.0 Definition

1.1 "Eligible Property" consists of properties that are classified within the new multi-residential properties class.

2.0 Process to Determine Eligibility for Inclusion in the Subclass

2.1 The Municipal Property Assessment Corporation (MPAC) will include the Eligible Property in the Subclass in accordance with Section 3.0.

3.0 Subclass Inclusion

3.1 Eligible property or a portion thereof will be included in the Subclass (the "Included Property") if the Eligible Property meets the requirements in both (A) and (B) below:

(A) The Eligible Property contains units that have been built, or converted from non-residential use, pursuant to a building permit; and

(B) At the time when the building permit is issued, a by-law applying the New Multi-Residential Property (Municipal Reduction) Subclass to the City of Toronto is in force.

4.0 Eligibility of Existing Multi-Residential and New Multi-Residential Properties

4.1 The portion of properties classified as Multi-Residential and New Multi-Residential that existed prior to the adoption of the New Multi-Residential Property (Municipal Reduction) Subclass are not eligible for inclusion in the Subclass, regardless of whether they have received a building permit for interior alterations or renovations.

4.2 Where new units are added to an existing Multi-Residential and New Multi-Residential property through an addition, these new units are eligible for inclusion in the New Multi-Residential Property (Municipal Reduction) Subclass.

Attachment 2 – Enhancements to the Rental Housing Supply Program

Table 1 – Proposed New Purpose-Built Rental Homes Incentives Stream

The table below describes the eligibility requirements for projects to be considered for City benefits to purpose-built rental homes, as described in this report. All projects requesting incentives for purpose-built rental homes will be required to provide at least 20% of the units in the proposed development as affordable rental homes, with those homes meeting all requirements of the RHSP related to affordable rental homes.

	Purpose-built Rental Homes Stream [NEW]
Project Eligibility	
Proponent	Private organizations, public organizations, and community housing providers.
Minimum affordable component	20% of project units secured as affordable rental, with unit mix and sizes complying with City requirements.[1]
Affordability level	20% affordable rental units must meet the City's RHSP requirements (income-based definition).
Affordable duration	Affordable units secured for a target of 99 years, and a minimum of 40 years. Project rental tenure secured for a target of 99 years, and a minimum of 40 years.
Rent control	Purpose-built rental units in line with Provincial legislation. Affordable rental units in line with Provincial Rent Increase Guideline.
Construction Start	Projects must demonstrate ability to rapidly achieve construction start, as outlined in the Call for Applications.
Incentives Available to Purpose-built Rental Homes	
Development Charges	Eligible for deferral of development charges payable for the purpose-built rental homes.
Parkland Dedication Fees	Not eligible
Community Benefits Charge	Not eligible
Planning and Building Fees	Not eligible
Property taxes	Automatic 15% reduction and a request to the provincial government to rebate the City to allow for a full property

	Purpose-built Rental Homes Stream [NEW]
	tax waiver (residual 85%) for the duration they are in the New Multi-Residential Property Subclass (35 years)
Funding & Other Supports	
Grant Funding	Not eligible
Priority review of planning applications	Eligible

1) The affordable units must also comply with unit size and mix requirements as determined by the Executive Director, Housing Secretariat, and may include the City's Affordable Housing Design Guidelines, or other requirements as set out in the Call for Applications.

Table 2 – Enhancements to Existing Rental Housing Supply Program

The table below outlines the proposed new minimum eligibility requirements for projects to receive City benefits through the RHSP for affordable and rent-controlled homes, and the benefits the City would offer for eligible projects including funding and incentives. These programs were approved by Council at its meeting of June 26 and 27, 2024, through item PH13.8.

	Affordable rental homes	Community housing-led rent-controlled homes
Project Eligibility		
Proponent	Community housing providers & private organizations.	Community housing providers.
Minimum affordable component	NEW: 20% of project units secured as affordable rental.[1,2]	NEW: 20% of project units secured as affordable rental.
Affordability level	Lower of the City's income-based and the DC Act definitions, by bedroom type.	No more than 150% AMR, by bedroom type.
Affordable duration	Target of 99 years, minimum 40 years.	Target of 99 years, minimum 40 years.
Rent control	Increases capped at Provincial Rent Increase Guideline.	Increases capped at Provincial Rent Increase Guideline +2%.
Incentives Available		
Development Charges	Eligible for full exemption.	Eligible for full exemption.

	Affordable rental homes	Community housing-led rent-controlled homes
Parkland Dedication Fees	Eligible for full exemption.	Eligible for full exemption.
Community Benefits Charge	Eligible for full exemption.	Eligible for full exemption.
Planning and Building Fees	Eligible for full waiver.	Eligible for full waiver.
Property taxes	Eligible for 100% exemption for the duration of the affordability period.	Eligible for 100% exemption for the duration of the affordability period.
Funding & Other Supports		
Grant Funding	Eligible for funding up to $260,000 per unit.	Not eligible
Priority review of planning applications	Eligible	Eligible

1) The affordable units must also comply with unit size and mix requirements as determined by the Executive Director, Housing Secretariat, and may include the City's Affordable Housing Design Guidelines, or other requirements as set out in the Call for Applications.
2) Exemptions to this requirement may be provided for Expanding Housing Options in Neighbourhoods (EHON) projects, i.e. small projects with 10 units or less (e.g. laneway, garden suites, subject to consultation with City Planning).

Attachment 3: Summary of Total Financial Impacts for Phase 1 and Phase 2

Description			Value of Benefit			Financial Impacts ($ millions)		
Type	**# of Homes**	**Financial Benefits/ Incentives**	**Per Unit**	**Total** ($ millions)		**City**	**Provincial**	**Federal**
Phase 1: Quick Start (7,000 Homes)								
Affordable	**1,400**	Property Tax Exemption (40 years)	$95,148	$133.2		$133.2	-	-
		Waiver of Planning & Building Fees[3]	$2,116	$3.0		$3.0	-	-
Purpose-Built Rental	**5,600**	Property Tax Reduction – 15% (35 years)	$20,396	$114.2		$114.2	-	-
		Value of Development Charges	$37,636	$210.8		$210.8	-	-
Sub-Total:	**7,000**	**Total Financial Impacts of Phase 1:**	**$65,878** blended avg	**$461.1**		**$461.1**	**-**	**-**
Phase 2: Support from Intergovernmental Government Required (13,000 Homes)								
Affordable	**2,600**	Property Tax Exemption (40 years)	$95,148	$247.4		$247.4	-	-
		Waiver of Planning & Building Fees	$2,116	$5.5		$5.5	-	-
Purpose-Built Rental	**10,400**	Property Tax Reduction – 100% (35 years)	$135,974	$1,414.1		$212.1	$620.9[4]	-
		Value of Development Charges	$37,636	$391.4		-	$391.4	-
Sub-Total:	**13,000**	**Total Financial Impacts of Phase 2:**	**$158,341** blended avg	**$2,058.4**		**$465.0**	**$1,012.3**	**-**
Phase 1 & 2	**20,000**	**Total Financial Impacts of Phase 1 & 2:**	**$125,979** blended avg	**$2,519.6**		**$926.2**	**$1,012.3**	**See Note 1**

Note 1: In addition to the above, **CMHC is requested to provide low-cost financing for all 20,000 homes, estimated at $7.3 billion**.

Note 2: The City, through the Rental Housing Supply Program, makes available capital grants **up to $260,000** per affordable rental home. Funding requests will be considered as part of a call for application process and will be subject to Council approval. The City **is seeking equal contributions from the provincial and federal governments for Phase 2 (2,600 units) of up to $225.3 million each**.

[3] Excludes existing incentives that are required under Bill 23 and the Development Charges Act, including development charges, community benefits charges and parkland dedication funds.
[4] The 100% property tax exemption includes 15% to be absorbed by the City and 85% to be contributed by the Province. **The 85% provincial requirement of $620.9 million reflects the present value the City** would require upfront today in order to make offsetting annual withdrawals. Alternatively, the Province could provide the actual amount of **$1.202 billion over the 35-year period**.