REPORT FOR ACTION

Supporting Ownership Housing Developments

Date: March 18, 2025
To: Executive Committee
From: Deputy City Manager, Development and Growth Services and Chief Financial Officer and Treasurer
Wards: All

SUMMARY

Toronto is experiencing a continued housing supply slowdown as a result of high construction and financing costs, higher interest rates, and declining pre-construction sales and rents. Foreign trade risks and immigration changes add significant uncertainty to the growth outlook of housing supply. The slowdown in development activity could have a generational negative impact on Toronto's ability to accommodate the housing needs of current and future residents, and a potential permanent loss of development capacity if capital and labour are reallocated.

This slowdown is being experienced across the housing spectrum. Following the introduction of a new Purpose-Built Rental Supply Program in late 2024, this report is proposing measures to unlock and advance stalled multi-unit ownership housing projects that include at least 5%-10% affordable housing and are expected to start construction within the next two years. Subject to approval of this report, the City will provide deferral of the payment of development charges (DCs) for eligible multi-unit ownership units. The deferred DCs would then be payable, interest free and at June 2024 DC rates, four years following approval of the deferral or at the time of condominium approval, whichever occurs earlier.

Subject to adoption of this report, staff will undertake a review of projects already in the City's development review pipeline to identify interested proponents with projects on private land that have submitted a Complete Site Plan Application as of March 1, 2025 and include at least 5%-10% of their units as affordable housing.

Based on a high-level preliminary review, staff estimate that there are at least approximately 14,000 units in the development review pipeline that will be developed as condominium buildings and that include an affordable housing component at various stages of development review status. Based on the City's current financial capacity, up to 3,000 condominium units can be unlocked through these measures. Staff will report in Q2-2025 with the results of the implementation process.

In previous discussions with industry leaders, through Building Industry and Land Development (BILD), the City was asked to provide a full exemption of DCs for condominium units to unlock stalled developments. While this report does not recommend an exemption, the proposed measures aim to improve the financial viability of condominium housing projects by reducing upfront development and financing costs for developers, while considering the financial constraints of the City of Toronto and that these projects will contribute to the affordable housing supply and creation mixed-income communities in Toronto.

The City of Toronto hopes that municipal actions undertaken will be complemented by efforts by the provincial and federal governments to advance housing supply. For example, City Council has formally requested the Province amend the *Development Charges Act* to authorize municipalities to adjust or remove annual development charge indexing provisions without an amendment to the development charge by-law, with the objective of incentivizing housing development (Item CC27.2). This would allow the City of Toronto to have greater flexibility in responding to market conditions.

Recent trade developments between the United States (US) and Canada, notably US-initiated tariff disputes, have introduced new uncertainties which will have direct and indirect impacts on construction projects, and the overall economy. There is an opportunity to spur construction of ownership projects with an affordable housing component faster, so people can move into these new homes sooner. These actions will support Toronto and Canada's efforts to ensure a more resilient economy, during the response to tariffs and beyond, while supporting local jobs and economic growth.

RECOMMENDATIONS

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

1. City Council direct the Executive Director, Development Review Division and Executive Director, Housing Secretariat to:
    a. undertake a review process of residential development applications in the City's Development Review pipeline that:
        i. are intended to be developed as Condominiums,
        ii. include at least 5%-10% of total residential units as affordable units, and,
        iii. have submitted a complete Site Plan Application by March 1, 2025.
    b. prioritize projects that include a higher percentage of affordable housing.

2. City Council authorize the Deputy City Manager, Development and Growth Services, in consultation with the Chief Financial Officer and Treasurer, to approve up to 3,000 condominium units in the class of projects described in Part 1 to benefit from:
    a. deferral of development charge payments until the earlier of four years from the approval of the deferral, or Condominium approval, with the final payment date subject to the approval of the Deputy City Manager, Development & Growth, provided it is no later than Condominium approval,
    b. waiving of interest on deferred development charge amounts, and

c. applying the development charge rates in effect as of June 6, 2024 for applications not subject to a lower frozen rate.

3. 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 development projects identified in Part 1 to allow relevant information to be provided to City staff.

4. City Council authorize the Deputy City Manager, Development and Growth Services, 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 condominium units approved per Part 2 provided building permits are issued for the project within two-years of approval for development charges deferral, and on such other terms and conditions as may be satisfactory to the Deputy City Manager, Development and Growth Services and in a form satisfactory to the City Solicitor.

5. City Council direct the Deputy City Manager, Development and Growth Services, and the Chief Financial Officer and Treasurer to report to Council in Q2-2025 with the results.

FINANCIAL IMPACT

The report proposes deferring development charge (DC) payments for eligible multi-unit homeownership projects, shifting the payment date from the issuance of the first building permit to the earlier of four years following approval of the DC deferral, or the time of condominium approval, provided building permits are issued for the project within two-years of DC deferral approval. Final DC payment dates may be varied by the Deputy City Manager, Development & Growth, but in all cases DCs will be paid prior to Condominium approval.

For the purposes of this analysis, staff have considered that the average payable DC for a condominium unit today is $60,716, based on current rates (which are DC rates effective as of June 6, 2024). This assumes an average unit mix of: 25% studio, 45% 1 Bedroom, 20% 2 Bedroom, and 10% 3+ Bedroom.

Based on a preliminary review, it is expected that an interest-free DC deferral for a four-year period at current DC rates could provide a financial benefit of up to $18,792 per unit, based on estimated construction cost financing rates. This includes up to $16,788 per unit associated with an interest-free deferral period and up to $2,004 per unit associated with applying June 6, 2024 rates. The avoidance of this upfront financing cost for developments could help to advance or unlock stalled projects. Actual benefits will vary on an individual development basis, depending on their financing rates and construction timelines.

Provision of a DC deferral would result in a short-term cash flow deferral for the City, which can be accommodated within the 10-Year Capital Plan without having a negative impact on planned capital projects and spending. DCs would be received within a four-year period, or at an earlier date upon condominium approval. There is expected to be a minimal financial impact to the City of up to $9,426 per unit in total, which primarily reflects any foregone investment returns associated with deferred payments, based on the City's long-term investment rate of return, which is different to the assumed cost of financing for development noted above.

The proposed measures in this report aim to improve the financial viability of condominium housing projects by reducing upfront development and financing costs for developers, while considering the financial constraints of the City of Toronto. Based on preliminary review, staff estimate that there are at least approximately 14,000 units in the development review projects that include a mix of condominium and affordable housing units at various stages of development review status.

A maximum of 3,000 condominium units will be approved for measures proposed in this report, based on the City's affordability and financial constraints. This would represent a maximum upset limit for the City of $182.1 million in deferred cash flow and $28.3 million in foregone investment returns, which can be accommodated without impacting planned capital investments. Staff will report in Q2-2026 with an updated financial impact, based on approved projects.

The City of Toronto has requested that the Province allow the City to adjust or remove planned annual indexing, which is currently scheduled for May 1, 2025, in accordance with the City's in-force DC by-law. While units approved through measures proposed in this report will be subject to DC rates effective June 6, 2024, a change by the Province to indexing provisions would allow the City to potentially expand financial benefits to additional developments.

DECISION HISTORY

At its meeting on December 17, 18, and 19, 2024, City Council adopted item PH17.7 – "Home Ownership Assistance Program Update," approving the general terms and conditions for the program, including revised income eligibility thresholds. https://secure.toronto.ca/council/agenda-item.do?item=2024.PH17.7

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 and 9, 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 on June 15, 16, and 17, 2022, City Council adopted EX34.1 "Development Charges By-law Update – Adoption of the Development Charges Background Study and By-law", approving the updated Development Charges By-law and the associated background study to support funding for growth-related infrastructure. Appendix 5 of the report outlines the policies for calculating and collecting Development Charges, including the processes for determining eligible costs, setting rates, applying exemptions, and managing payment procedures.
https://secure.toronto.ca/council/agenda-item.do?item=2022.EX34.1

At its meeting on December 15, 16, and 17, 2021, City Council adopted the report EX20.4 – "Development Charges Policy Updates" which included general terms and conditions with respect to installment payments with financial security, and agreements for early payment.
https://secure.toronto.ca/council/agenda-item.do?item=2021.EX20.4

At its meeting on April 24, 2018, City Council adopted EX33.3 "Development Charges By-law Review – Results of Additional Consultation" to adopt the City's current development charges bylaw, including a two-year rate phase-in, and continued the practice of requiring applicants seeking conditional below-grade permits to enter into agreements providing for the charges to be calculated and paid at the time of issuance of the above-grade permit.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX33.3

COMMENTS

Toronto's Housing Supply Targets

Through the adoption of *PH3.8 - A Housing Pledge for the City of Toronto*, City Council committed to actions aimed at achieving the goal of 285,000 homes by 2031. This target was set by the Province as part of its broader goal of 1.5 million new homes. Through the federal Housing Accelerator Fund (HAF), the City has committed to 60,980 net new permitted units by September 2026.

In return for meeting these housing supply targets, the City is expected to receive funding through the provincial Building Faster Fund (BFF) and the federal HAF program. These funds, when combined with City financial resources, are critical to ensuring the City can support the development of affordable housing within mixed-income residential developments, advancing both the City's broader housing and affordable housing targets.

Housing Market Trends

Canada Mortgage and Housing Corporation (CMHC) is forecasting that total housing starts in Ontario's central markets are expected to decline in 2025 (for the fourth year in a row). This is due to condominium apartment starts falling further because of the lagged impact of elevated financing rates. This is concerning as in Toronto, condos have made up approximately 79% of the new housing completions over the past 10 years and therefore declining starts would have a significant impact on new housing development.

Between 2019 and 2023, more housing units were built annually in Toronto than at any point in the past three decades. While a large volume of development projects continues to proceed through the construction process, both condominium and purpose-built rental starts declined in 2024 due to the impact of higher interest rates and increased construction costs on viability. From January to December 2024, combined housing starts totalled 18,715 units, with condominium starts at 11,638 units. This represents an overall decline in starts of 39%, and 46% for condos, compared to 2023. Toronto’s provincial housing supply target for 2024 under the provincial Housing Pledge is 23,750 housing units.

In the short term, it is expected that this slowdown in activity will accelerate as the impact of lower pre-construction condominium unit sales translates into reduced housing starts. In 2024, 2,107 condominium units were sold which represented an 83% decline compared to the 10-year annual average sale of 12,467 condominium units.

Rental housing starts also saw a decline in 2024 in comparison to 2023, however recent incentives provided by all orders of government, such as waivers of GST/HST, access to low-cost financing, and relief on property tax rates, development fees and charges could help reverse this trend.

Recent Actions Taken to Support Housing Supply

On November 13, 2024, City Council adopted *EX18.2 - Build More Homes: Expanding Incentives for Purpose Built Rental Housing* which introduced a call for applications to participate in a program for 5,600 purpose-built rental homes and 1,400 affordable rental homes. Successful applicants receive an indefinite deferral of all applicable DCs on the condition that the homes remain as rental tenure and that affordable rental homes remain affordable for the affordability period. Council also enacted the New Multi-Residential Property (Municipal Reduction) Tax Subclass. As part of the 2025 budget process, City Council approved a property tax rate reduction of 15 percent. This property tax rate reduction will benefit all new purpose-built rental homes, regardless of whether they were a successful applicant in the program.

In addition to statutory exemptions, affordable rental homes delivered through this program are eligible for a property tax exemption during the affordability period and a waiver of planning and building permit application fees. The adoption of incentives for rental housing led to a successful call for applications, resulting in 75 applications representing over 32,600 purpose-built rental and 7,400 affordable rental homes.

In preparation for the Purpose-built Rental Housing Supply report, staff undertook engagement with the Building Industry and Land Development Association (BILD) and with CMHC to discuss current market conditions and potential actions governments at all levels can take to support the housing sector. Through this process, staff also engaged an independent third-party housing development and economics consulting firm to help support the financial analysis of potential incentives, and to review inputs and assumptions provided by BILD. These consultations highlighted key challenges facing both the purpose-built rental and multi-unit ownership housing development markets, including the growing backlog of projects close to final approval that have not advanced to construction.

Throughout the engagement with BILD in the fall of 2024, representatives and industry stakeholders raised concerns about the multi-unit ownership development sector. BILD identified a total of 11,595 potential condominium units that were close to being ready to advance to construction but were stalled due to market challenges. While these units represent a subset of Toronto's overall development pipeline, they illustrate the potential to unlock immediate housing supply through targeted interventions or shifts in economic conditions. This report does not fully address the identified requirements by BILD, however, is intended to provide support to the development industry while operating within the financial constraints of the City of Toronto.

Recent Changes to Development Charge Calculation and Collection Policy
Over the past five years the Province has introduced multiple amendments to the *Development Charges Act* and related legislation, such as the *Planning Act*, including:

- The exclusion of housing services, such as affordable housing and shelters, as an eligible service;
- The exemption of affordable units from DCs, as well as units built by non-profit corporations;
- Discounts on purpose-built rental units of 15% for one-bedroom units, 20% for two-bedroom units, and 25% for three-bedroom units or larger;
- A deferred payment schedule for purpose-built rental and institutional developments of six annual installments that start at the date of occupancy permit issuance;
- Prescribing a maximum interest rate to an average of the prime rate plus 1%; and,
- Introducing a "frozen" rate policy which sets the DC owing at the date of complete site plan application, or if site plan control is not applicable the rate is frozen at date of complete zoning by-law amendment application.

These legislative changes were introduced to encourage new housing supply. However, they have collectively had a negative financial impact on the City of Toronto and the Province has not followed through with its commitment to provide offsetting compensation. Additionally, the frequent amendments have reduced clarity around the application of DCs and increased administrative burdens.

In response, the City has regularly updated policies regarding the calculation and collection of DCs alongside the currently in-force Development Charges By-law. These policies aim to streamline administrative operations, provide a consistent approach for both internal and external communication, and help mitigate the impacts of legislative changes.

Further, the proposed measures in this report aim to improve the financial viability of condominium housing projects by reducing upfront development and financing costs for developers, while considering the financial constraints of the City of Toronto, recognizing the changes to DC policies in recent years.

Supporting Multi-unit Ownership Housing

The City of Toronto has led the way in providing a range of investments in purpose-built rental housing projects to incentivize new rental homes, including affordable rental homes.

Considering the future outlook of declining housing starts in the Greater Toronto Area (GTA) that are mainly due to declines in the condominium apartment segment this year, as well as ongoing high development costs and weak demand, this report proposes time-limited DC deferrals to advance stalled multi-unit ownership projects with an affordable housing component that can start construction no later than two years after receiving approvals for DC deferral.

To identify eligible projects, staff will review existing residential development applications on private land in the development review pipeline to identify projects that:

- Include at least 5%-10% of total residential units as affordable rental or ownership housing, including those approved/secured through Official Plan policies and related zoning bylaws, a rezoning application (e.g. Section 37), or through an affordable housing program (e.g. Open Door Affordable Housing Program, Homeownership Assistance Program) prior to March 1, 2025; and,
- Have submitted a Complete Site Plan application by March 1, 2025.

These affordable homes will meet the affordability criteria (as it relates to length or depth of affordability) as applicable under the relevant policy and programs as originally approved by City Council, or through delegated authorities.

These eligibility requirements are intended to ensure the City's financial resources are supporting projects that can increase the number of net new housing starts in the short-term while ensuring they contribute to the affordable housing supply of Toronto and create mixed-income communities.

In-take Review Process

Subject to the approval of recommendations in this report, City staff will contact proponents of residential development applications on private land meeting the eligibility criteria outlined above to seek their interest in measures proposed in this report. As part of this process, the City will require the following information from proponents to confirm eligibility and collect project data to assist in monitoring:

- Basic proponent and development project information, including land ownership information, corporate structure, confirmation the project meets minimum eligibility requirements; and
- A development schedule indicating ability to achieve construction start within two years of approval by the City for DC deferral.

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. In the event the eligible projects exceed the 3,000-condominium unit limit as proposed in this report, priority will be given to projects with a higher percentage of affordable units.

Available Development Charge Benefits
Condominium units in eligible projects will benefit from the following incentives, provided they have achieved first building permit within two years of approval by the City for measures proposed in this report:

A) *Deferred Payment for Condominium Housing Developments*
Eligible condominium projects would be provided the ability to defer the payment of applicable DCs until the earlier of four years following approval of the DC deferral by the City or condominium approval. Construction timelines can vary substantially based on project complexity. If final Plan of Condominium approval has not been granted within four-years of the approval of the DC deferral, applicable DCs would be collected at that time. The Deputy City Manager, Development and Growth Services may exercise discretion to extend the four-year period, but in no case shall the DCs be paid later than condominium approval.

B) *Waived Interest on Deferred Payments*
Interest rates on deferred payments for eligible projects would be fully waived of interest charges. Currently, interest on deferred payments is subject to a calculated average rate of prime plus 1% if financial security is not provided. Where financial security has been provided, deferred payments are typically subject to a rate equal to the City's cost of capital plus 0.5%.

C) *Applying the June 6, 2024 Development Charge Rates*
On May 1 of each year the City's in-force Development Charges By-law requires that the applicable rate schedules be adjusted to reflect the most recent annual change in the Non-Residential Building Construction Price Index (Toronto). City Council has formally requested the Province amend the *Development Charges Act* to authorize municipalities to adjust or remove annual DC indexing provisions without an amendment to the Development Charges By-law, with the objective of incentivizing housing development. This would allow the City of Toronto to have greater flexibility in responding to market conditions.

Section 27 of the *Development Charges Act* allows the City to determine applicable DC rates for individual agreements. The intent is that eligible condominium projects would be subject to the DCs rate in effect as of June 6, 2024, regardless of the outcome of provincial decisions, and regardless of the date of first building permit issuance. In situations where a project is subject to a lower frozen rate, and applies for a building permit without conditions, the lower frozen rate will apply. Should the Province amend the *Development Charges Act*, the City may be able to adjust planned indexing provisions to support additional developments.

These proposed incentives would not apply to non-residential components of eligible projects.

This report recommends that payment of outstanding DCs be added as a condition of final Plan of Condominium approval to ensure collection and minimize risk to the City. Confirmation of payment will be required to lift conditions and grant approval.

Should projects not advance quickly enough to obtain building permits within two years of approval by the City for DC deferral, the DCs will be payable in the ordinary course, pursuant to the Development Charges By-law.

In the event the landowner fails to deliver affordable housing commitments for the duration of the applicable affordability period, the City will be entitled to recover the amount of the interest waived on the deferred DCs for condominium units.

Comprehensive Development Charges Review

At its meeting on February 11, 2025, City Council requested staff to initiate a comprehensive review of DCs which incorporates the City's growth-related capital requirements, enhances the flexibility to leverage DC funding across all eligible capital projects, and considers housing affordability and market trends. This review will include updating the City's DC Background Study in parallel to reviewing related DC policies and processes.

The process of completing a background study is laid out in Section 10 of the *Development Charges Act* and requires growth forecasts, service-level calculations, and a plan of the long-term capital and operating costs for capital infrastructure required for each service. Due to these statutory requirements, developing a new Background Study and By-law is resource-intensive and typically requires approximately 18 months to complete.

In the interim, this report focuses on immediate short-term actions to unlock new housing supply, which are both in the City's legislative ability to implement and can be accommodated within the City's financial constraints.

Intergovernmental Support

The City of Toronto hopes that municipal actions undertaken will be complemented by efforts by the provincial and federal governments to advance housing supply. The Province is requested to amend the *Development Charges Act* to provide municipalities with greater flexibility to respond to emerging issues and benefit from a variety of funding programs provided by the federal government.

For instance, the federal Canada Housing Infrastructure Fund required participating municipalities to implement a three-year freeze on DCs at the rates in effect as of April 2, 2024. Due to annual indexing for non-residential construction price index specified in many development charge by-laws, including Toronto's, it is not possible to meet this requirement without undertaking a full statutory review. Greater flexibility could also help provide temporary rate reductions or targeted exemptions to respond to market challenges or evolving housing objectives.

The Province is also requested to follow through on its previous commitments to make municipalities whole for the financial impacts of Bill 23. This support would provide the City of Toronto with greater financial capacity to introduce programs and initiatives to support housing supply, while still delivering on essential infrastructure and services.

Conclusion
This report recommends targeted short-term measures to support stalled condominium development projects which include an affordable housing component, by leveraging available tools within the financial constraints of the City. These measures will complement a number of other incentives available from all orders of government to facilitate more homes, and will collectively aim to address the slow down in housing starts and ensure the City can continue to create housing options across the continuum for current and future residents.

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