
REPORT TITLE: Draft Inclusionary Zoning Feasibility Analysis and Policy Directions

**FROM: Kealy Dedman, Commissioner of Public Works
Adrian Smith, Chief Planner and Director, Regional Planning and Growth
Management**

RECOMMENDATION

That the contract for Analysis and Implementation for Affordable Housing Tools and Incentives for the Region of Peel (Document 2018-670P), between the Region of Peel and N. Barry Lyon Consultants Ltd., be extended to provide additional consulting services and analysis, in the amount of \$112,500 (excluding applicable taxes), for a revised total contract amount of \$467,350, excluding applicable taxes, in accordance with Procurement By-law 30-2018, as amended;

And further, that staff be authorized to retain urbanMetrics and deemed to be qualified to perform the peer review of the Feasibility Analysis component of the Inclusionary Zoning municipal assessment prepared by N. Barry Lyon Consultants Ltd., on behalf of the Region of Peel.

REPORT HIGHLIGHTS

- In accordance with Ontario Regulation 232/18, Regional staff have worked collaboratively with local municipal staff to prepare a draft Inclusionary Zoning (IZ) Assessment Report made up of a draft Feasibility Analysis and a draft Regional Housing Strategy Data Update.
- The draft Feasibility Analysis assessed case studies of 15 major transit station areas based on consistent assumptions to determine the viability of IZ and the results indicate that:
 - IZ may be feasible for residential condominium projects within the Region's stronger market areas including the Hurontario corridor from Port Credit to Uptown and Downtown Brampton.
 - Proposed condominium developments in other emerging major transit station areas are likely to require a lower proportion of Gross Floor Area (GFA) being required for affordable housing or consideration of incentives and/or other implementation strategies to be viable such as applying IZ to additional density instead of the entire building.
 - Purpose built rental in almost all major transit station areas are likely to require a lower proportion of GFA being required for affordable housing, consideration of incentives or potentially an exemption from IZ.
 - Implementing IZ gradually and with adequate transition is important to provide an opportunity for developers and landowners to adjust to the new market realities.
- Coordination of implementing IZ with the timing of large public sector investments such as transit improvements, represents the greatest potential for a successful IZ policy by

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allowing the increased land value to be partially recaptured in the form of affordable housing contributions.

- There are opportunities to include IZ policies in the Regional Official Plan to support the local municipalities in implementation as well as to advance some of the Region's objectives as it relates to the provision of affordable housing.
- Consultation on the draft Assessment Report, draft policy directions and draft policies will continue through the spring and summer of 2021.
- Through the recommendations of this report, staff are seeking a contract increase between the Region of Peel and N. Barry Lyon Consultants Ltd. to cover the cost of additional case studies requested by the City of Mississauga. Mississauga will reimburse the Region of Peel the total amount to cover these additional costs.
- Staff are seeking authorization through the recommendations of this report to retain urbanMetrics and deem them qualified to undertake the peer review as required by Provincial regulations.

DISCUSSION

1. Background

Beginning in 2016, the Province adopted legislation authorizing municipalities to include inclusionary zoning policies in their official plan. This land use planning tool enables municipalities to require that a proportion of units within proposed residential developments located in major transit station areas be provided at affordable rates as a condition of receiving building permit.

The requirements for implementing IZ outlined in Ontario Regulation 232/18 identifies the need to prepare an Assessment Report that includes analysis of municipal demographics and population, household income, housing supply, housing demand, housing affordability, and analysis of the impacts of IZ on the housing market and financial viability of development. Although IZ is implemented through zoning control at the local municipal level, the Region is working with the local municipalities in completing the requirements of the Assessment Report through two components as follows:

1. N. Barry Lyon Consultants Ltd. (NBLC) was retained to prepare a Feasibility Analysis which assesses the impact of IZ on the housing market and the viability of development.
2. Regional staff prepared a draft Regional Housing Strategy Data Update using the 2018 Housing Strategy as the basis for the majority of demographic requirements but have updated the data where it is available and have broken down Region wide data to the local municipal level as required.

The draft NBLC Feasibility Analysis report is attached to this report as Appendix I and the draft Regional Housing Strategy Data Update is attached as Appendix II. Prior to finalization, the regulations require a peer review of the Feasibility Analysis "from a person independent of the municipality and who, in the opinion of the council of the municipality, is qualified to review the analysis." This requires municipalities to obtain approval of the selected peer reviewer in accordance with the regulations. UrbanMetrics has demonstrated industry expertise in market analytics, feasibility analysis, and economic impacts, as well as undertaken recent work reviewing the inclusionary zoning market analysis for the City of Kitchener. Through the recommendations of this report, staff are seeking Council's authority to proceed with retaining urbanMetrics to commence the peer review. In January and

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February 2021, the Councils of the local municipalities endorsed urbanMetrics to undertake the peer review.

Completion of the Assessment Report, and the peer review will meet the requirements for implementing inclusionary zoning policies and programs by the Region and the local municipalities.

2. Summary of NBLC's Draft Feasibility Analysis

NBLC's draft Feasibility Analysis tests the impact of potential inclusionary zoning parameters absent of any financial incentives (aside from the existing Brampton Downtown Development Charge incentive) and without additional density, meaning IZ requirements would apply to the entire building. This approach was undertaken to assess the impacts of the most onerous impacts, recognizing that municipalities could require less onerous implementation options in some major transit station areas where markets are not quite as strong.

The key assumptions used throughout the analysis includes the following:

- IZ requirements are calculated as a percentage of total Gross Floor Area (GFA) in a proposed development, referred to as the "set-aside rate". NBLC's analysis tests a set-aside rate of 10 per cent for both condominium and rental development, whereby 10 per cent of the GFA of a building must be provided at affordable rates.
- Affordable Rental: 100 per cent of the Canada Mortgage and Housing Corporation Average Market Rent by bedroom type and municipality.
- Affordable Ownership: \$423,038 for a three-bedroom unit (top of Peel's 6th income decile); \$356,707 for two-bedroom units (top of Peel's 5th income decile); \$294,634 for one-bedroom units (top of Peel's 4th income decile).
- The affordable rental units are tested through two scenarios: where affordability is required for a 25-year period, and where affordability is required in perpetuity.

a) Methodology

The draft Feasibility Analysis completed by NBLC evaluated the viability of IZ in 15 major transit station areas (1 in Caledon, 4 in Brampton, and 10 in Mississauga).

In each of the 15 test sites, local planning staff recommended sample condominium and purpose-built rental development concepts based on emerging trends and may be achievable based on current policies or through a future development application. NBLC undertook the assessments as follows:

1. The existing "as-is, where is" values of the redevelopment site(s) were established based on the current use of the property (i.e., a single-story commercial plaza, or multiple single detached homes to be assembled and redeveloped).
2. Market research was undertaken for each case study area to assess local pricing which was used to develop a residual land value proforma model which assesses all the project revenues. From these revenues, the costs of development and the developer's profit were subtracted and what remains is the land value that a developer might be willing to pay for the property.

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3. If the land value supported by the high-density development opportunity, with IZ requirements included, is at least 10 per cent greater than the existing “as-is, where-is” value of underutilized properties, NBLC assumes there is a viable economic opportunity for IZ to be implemented. If this test is not met, it is concluded that IZ may not be viable based on market conditions and the assumptions provided.
4. In instances where the land value of the high-density development opportunity with IZ requirements is not viable, alternative approaches may be necessary for IZ viability. This could include implementation of a lower proportion of GFA being required for affordable housing, consideration of incentives, additional density approach, etc.

b) Draft Conclusions

The results of NBLC’s draft Feasibility Analysis demonstrates that there is ‘no one size fits all’ approach for IZ in the Region.

Based on the assumptions considered, IZ may be feasible for residential condominium projects within the Region’s stronger market areas including the Hurontario corridor from Port Credit to Uptown and Downtown Brampton.

Proposed condominium development in other emerging major transit station areas are likely to require a lower proportion of GFA being required for affordable housing or consideration of additional incentives to be viable.

Purpose built rental in almost all major transit station areas are likely to require consideration of incentives, a lower proportion of GFA being required for affordable housing or potentially an exemption from IZ to encourage more rental developments.

In all cases, land markets require time to adjust. IZ will place downward pressure on land values, which can be significant if an aggressive policy is implemented suddenly. If not managed appropriately, this could stall development activity and create significant hurdles for developers who have already acquired land at the highest and best use. Implementing IZ gradually and with adequate transition will allow both developers and landowners the opportunity to adjust to the new market realities.

The draft results of the 15 case studies are outlined in Section 6: Findings of the Financial Analysis of the draft Feasibility Analysis attached as Appendix I to this report. It is important to note that the results of the case studies are based on a series of assumptions outlined previously in Section 2 of this report, and inputs into the residual land value proforma that were deliberately onerous. As such, viability of these areas for IZ may still be feasible, should implementation be undertaken with reduced requirements. For example, viability in the case studies was based on 10 per cent of the GFA being provided as affordable housing, and therefore viability may be improved if that rate was reduced.

Within the Region, there are several initiatives underway that will have the effect of improving market demand and land values, such as transit improvements and other public sector investments (i.e., Hurontario Light Rail Transit, Riverwalk, other land use-change/zoning changes). Coordination of implementing IZ with the timing of these large public sector improvements represents the greatest potential for a successful IZ policy by

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allowing the increased land value to be partially recaptured in the form of affordable housing contributions.

d) Draft Recommendations

Based on the results of the draft Feasibility Analysis, NBLC has provided a series of recommendations for the Region and its local municipalities to consider when implementing inclusionary zoning policies. These draft recommendations include:

- Provide transition when implementing IZ to allow landowners and developers to adjust to the implications on the market.
- Consider implementing reduced IZ requirements or other incentives such as density bonusing for major transit station areas in weaker and/or moderate market areas that are unable to absorb IZ based on the assumptions applied in the Feasibility Analysis.
- Policies should balance IZ goals with broader development objectives. For instance, given the results of the Feasibility Analysis on purpose-built rental housing supporting IZ, a response could be to provide incentives, require a lower set-aside rate or to exempt rental projects from IZ.
- For IZ to have a long-term impact on affordability across Peel Region, the municipalities should seek affordability for units created through IZ in perpetuity.
- The Region and local municipalities should develop a framework to monitor and report on affordable housing acquired through IZ and updating Market Assessments in accordance with Provincial requirements.

3. Proposed Policy Directions

Although implementation of IZ will be undertaken by local municipalities, there are opportunities to include policies in the Regional Official Plan to support the Region's local municipal partners in implementation as well as to advance some of Peel's objectives as it relates to the provision of affordable housing. Table 1 outlines some initial policy directions being considered for inclusion in the Regional Official Plan with respect to IZ.

Table 1: Regional Policy Direction Regarding Inclusionary Zoning

Policy Drivers	Draft Policy Directions
Identify the minimum size of development where IZ would apply. (O. Reg. 232/18)	When determining the minimum size of developments where IZ will apply, consider the unique characteristics and objectives of the major transit station area and the feasibility analysis evaluating the viability of IZ.
Determining the number of affordable units or % of GFA to be provided as affordable through IZ. (O. Reg. 232/18)	Phase in IZ, however establish a target percentage of GFA or equivalent % of units for affordable housing to endeavour to achieve. Implement IZ in a manner that recognizes that the market conditions of some major transit station areas are stronger and able to accommodate IZ better than others.

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Policy Drivers	Draft Policy Directions
Identify household incomes for which affordable housing would be provided. (O. Reg. 232/18)	Establish rental rates or sale prices that are consistent with measuring and monitoring undertaken at a Region of Peel scale.
Identify the period of time for which affordable housing should be maintained as affordable. (O. Reg. 232/18)	Establish that units provided through IZ be maintained for long term affordability.
Set out the approach to determine the percentage of the net proceeds to be distributed to the municipality from the sale of an affordable housing unit. (O. Reg. 232/18)	As one partner in administering implementation of affordable housing units, it is important that a framework be established for determining net proceeds and allocation of proceeds to municipalities for affordable units obtained through IZ.
Set circumstances in and conditions under which offsite units would be permitted. (O. Reg. 232/18)	To encourage the earliest development of affordable housing units and complete and inclusive communities, on site units should be prioritized.
Consider incentives for desired sizes and tenure of affordable units as outlined in the Region's Housing and Homelessness Plan and local housing strategies.	A need has been identified through the Peel Housing and Homelessness Plan for affordable units with 2+ bedrooms and more purpose-built rental units, and therefore implementation of IZ should be undertaken in a manner that encourages these forms and tenures of housing.
Support local municipalities in establishing and implementing IZ.	Collaborate with local municipalities to monitor and report on affordable housing acquired through IZ and updating Market Assessments in accordance with Provincial requirements.

4. Consultation, Implementation and Next Steps

a) Consultation

Consultation on the results of the draft Feasibility Analysis, policy directions and draft Regional Official Plan policies will be undertaken over the summer and into the fall of 2021 as part of the Region's Official Plan Review.

The Region is also coordinating consultation efforts with the local municipalities to establish an approach that will include engagement with the public and industry stakeholders, including private and non-profit housing providers and affordable housing advocates. It is anticipated that the local municipalities will provide direction regarding the appropriate timing and/or extent of consultation as it relates to development of local municipal official plan policies and zoning and Regional staff will participate in that consultation as appropriate.

The Building Industry and Land Development Association (BILD) submitted a letter to Regional Council dated December 10, 2020 requesting the establishment of a working group on IZ to provide comments on the draft Assessment Report. Regional staff, with the support of NBLC, hosted a working group meeting in mid-April with BILD where the results of the draft Assessment Report were shared.

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b) Administering Implementation of Affordable Housing Units

Introducing policies and zoning by-laws to implement IZ is an important initial step to deliver new affordable housing units, however it is also important to consider the administration of the affordable housing units. As implementation of IZ is advanced, the roles of various participants in IZ including the Region, the local municipalities, the development industry, and non-profit organizations must be determined as it relates to both affordable ownership and rental units. Initial discussions are underway internally as well as with the Region's local municipal partners to explore potential roles in administration of long-term affordability in ownership or rental units as well as to consider other partnership opportunities with non-profit organizations. Regional staff will continue these discussions and provide additional information on this matter in a subsequent Council report.

c) Next Steps

As mentioned in an earlier section of the report, in accordance with the IZ regulations, the Feasibility Analysis needs to be peer reviewed prior to finalization and staff have received endorsement from local Councils to retain urbanMetrics to undertake the peer review.

Regional staff will commence the peer review and make appropriate revisions to the Feasibility Analysis based on the results. The final Feasibility Analysis and Regional Housing Strategy Data Update will be brought before Regional Council as background for the Peel 2041+ Municipal Comprehensive Review Official Plan Amendment and will be made available on the Region's website.

RISK CONSIDERATIONS

There is no risk to the Region in undertaking the Market Assessment required to implement IZ in collaboration with the local municipalities or to incorporate policies guiding implementation of IZ in the Regional Official Plan.

Policies included in the Regional Official Plan Review undertaken as a Municipal Comprehensive Review are not appealable to the Local Planning Appeal Tribunal.

FINANCIAL IMPLICATIONS

Through the recommendations of this report, staff are seeking to increase the contract amount between the Region of Peel and NBLC, to provide additional consulting services and analysis, in the amount of \$112,500 (excluding applicable taxes). The original proposal with NBLC included one IZ case study in each local municipality, however subsequently Mississauga and Brampton requested that extra case studies be done at the Cities' expense. The City of Brampton will pay NBLC directly, however the City of Mississauga will reimburse the Region of Peel for the full cost of this requested increase, and there will be no additional cost to the Region. The entire assignment for NBLC also included broader housing policy and implementation work for the Region including the work towards the Affordable Housing Financial Incentives Pilot Program now being launched.

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CONCLUSION

Consultation on the materials included in this report and on draft inclusionary zoning Regional Official Plan policies will be undertaken over the summer and into the fall of 2021 as part of the Region's Official Plan Review.

Upon completion of the peer review of the Region's Market Assessment comprised of the Feasibility Analysis undertaken by NBLC and the Regional Housing Strategy Data Update undertaken by Regional staff, the Region and local municipalities will have met the requirements of the IZ regulation to begin to implement IZ. Based on the results of the peer review, appropriate revisions to the Feasibility Analysis will be made and the final materials will be brought before Council as background for the Peel 2041+ Municipal Comprehensive Review Official Plan Amendment and will be made available on the Region's website.

Regional staff will continue to collaborate with local municipal staff as they progress on implementation of inclusionary zoning through local official plan amendments and zoning by-laws and will participate in consultation undertaken by the local municipalities as appropriate.

APPENDICES

Appendix I – Draft Feasibility Assessment, Evaluation of Potential Impacts and Implementation of an Affordable Housing Inclusionary Zoning Policy, April 2021, N. Barry Lyon
Consultants Ltd.

Appendix II - Draft Regional Housing Strategy Data Update, April 2021

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