

Clause No. 25 in Report No. 6 of the Committee of the Whole was adopted, without amendment, by the Council of The Regional Municipality of York at its meeting on November 21, 2013.

25

PRIVATE MARKET RENTAL DEVELOPMENT CHARGES DEFERRAL SITE SPECIFIC PILOT PROJECT IN THE TOWN OF NEWMARKET

Committee of the Whole recommends adoption of the following recommendations contained in the report dated November 14, 2013 from the Executive Director, Corporate and Strategic Planning:

1. RECOMMENDATIONS

It is recommended that:

1. The Chief Administrative Officer and Treasurer be authorized to negotiate a development charges deferral agreement with Malter Holdings Ltd. and its affiliated entities based on the principles outlined in *Attachment 1* to this report. The execution of this agreement is contingent upon the Town of Newmarket reaching a similar agreement with Malter Holdings Ltd. and its affiliated entities.
2. The Treasurer be authorized to execute a mortgage, collateral security, and any related documents required to secure the mortgage subject to the prior approval of the Regional Solicitor.
3. The property be subject to a restrictive covenant registered on title requiring the property be developed and operated as a private market rental apartment complex for a minimum of 20 years.
4. The Regional Chair and Regional Clerk be authorized to execute the development charges deferral agreement, subject to the approval of the Regional Solicitor as to the form and content.

2. PURPOSE

The purpose of this report is to obtain Council authorization to enter into a development charges deferral agreement with Malter Holdings Ltd. and its affiliated entities in order to support the construction of an approximate 180 unit purpose built private rental

development at 212 Davis Drive in the Town of Newmarket. This development charges deferral agreement is being undertaken as a pilot project. Regional staff will assess effectiveness and report back to Council regarding future use as encouragement for construction of purpose built private rental projects.

3. BACKGROUND

A full mix and range of housing options, including rental options is a critical component to creating complete communities and economic vitality

A complete community meets people's needs for daily living throughout an entire lifetime and includes a full mix and range of housing options and choices, including rental accommodations. Rental options provide housing for a broad range of people, such as seniors, students, young professionals and contract workers who may prefer rental accommodation to home ownership. A full mix and range of housing, including rental options, promotes a more mobile and flexible workforce and provides more housing choice for the labour force who want to live and work in the Region, thus supporting the broader economy.

As baby boomers retire, younger workers may not be available in sufficient supply to meet the needs of York Region's growing economy. Other jurisdictions will be dealing with these same issues. Those with a variety of housing options for their workers will have greater success attracting and retaining their workforce.

The majority of rental growth in the past decade has been in the government assisted and secondary markets

The supply of rental options in York Region is not sufficient to meet existing demand. In 2011, the proportion of households in York Region that were rental tenure (12%) was lower than the national and provincial rates (31% and 29% respectively) and the lowest level amongst all GTA municipalities. As of October 2012, the vacancy rate in York Region was 1.6% and the vacancy rate in the zone that includes Newmarket was 1.3%, well below the minimum 3% vacancy that represents a healthy rental market.

There has been very little construction of purpose built rental housing in York Region since 2001. In 2012, out of 10,570 housing starts, only 270 (2.6 per cent) were for the rental market. Out of those 270 units, 237 were built by Housing York Inc. and only 33 by the private sector. The majority of rental growth has been in the government assisted and secondary markets (condominium rentals, second suites, etc.). Government assisted developments have targeted tenants and limited resources, and the secondary market does not offer security of rental tenure over the long term.

It is anticipated that demand for rental housing will continue to increase as the Region's population continues to grow and diversify and the cost of homeownership continues to

increase relative to the cost of living. If the development industry is to get back into the business of constructing private rental housing, we need to find innovative ways to work together to meet our collective goals.

Council has approved policies that demonstrate support for increasing purpose built private rental housing options

The Region supports the development of purpose built private rental through the alignment and targeting of policy. *York Region Official Plan (2010)* encourages the construction of new rental units and requires that local official plans and zoning by-laws contain policies that protect rental housing from demolition and conversion.

Council approved the Draft 10-Year Housing Plan for submission to the Province in October 2013. The Draft 10-Year Plan supports the development of purpose built private rental housing through the “Increase the Rental Housing Supply” Goal Area. The approval of this Plan further affirms Councils’ commitment to increase the rental supply in York Region.

The Human Services Planning Board encourages rental development in the Collaborative Advocacy Plan which guides advocacy efforts to create appropriate conditions to increase the supply of private market rental housing options in York Region. A report recommending that Council endorse the Collaborative Advocacy Plan was presented to Committee of the Whole on November 7 and is included on the same Council agenda as this report.

York Region is not alone in supporting purpose built private rental developments. Other organizations are also promoting this type of development. Such organizations include the Federation of Canadian Municipalities (FCM) through the *No Vacancy: Trends in Rental Housing in Canada* research report and the Ontario Non-Profit Housing Association in the *Rental Market Data from the 2011 NHS* analysis.

A developer has approached the Region and Town of Newmarket seeking support through a development charges deferral for a private rental development in Newmarket

Malter Holdings Ltd. is proposing to construct a purpose built rental development at 212 Davis Drive (see *Attachment 2*). They are currently in the process of finalizing the property purchase and a development application for submission to the Town of Newmarket. The draft proposal, for approximately 180 private market rental units, would be the first rental development of its size constructed in York Region in over ten years.

The developer has approached both the Town of Newmarket and York Region requesting relief from a number of financial obligations normally required of development proponents. The developer indicated the requested relief is necessary in order to make the

project economically feasible. The developer went on to explain that, unlike condominium developments which begin drawing revenue prior to construction through pre-sale of units, a purpose built rental development does not realize revenue until construction is complete and the units are leased.

The developer has requested that the Region consider entering into a development charge deferral agreement for the earlier of (i) 36 months or (ii) the sale of the property. Thirty-six months is twice as long as current deferral options available to condominium developers (18 months). The developer has advised that the additional time requested is to help offset the cost of the additional time required to lease up a rental development. The developer has also requested that development charges be secured by a mortgage on the property, rather than through a letter of credit.

4. ANALYSIS AND OPTIONS

The proposed development supports Regional policy directions

The location of the proposed development is optimal in that it implements many Regional policies relating to Centres and Corridors, intensification and transit supportive city building. The draft proposal is located on a Regional Corridor and a Viva rapid transit line that is under construction and scheduled to open in 2015. The development would be transit supportive and well serviced by urban amenities. As noted previously, purpose built rental housing is a desired component of a full mix and range of housing options and choices.

The proposed development would likely contribute towards the Region's supply of affordable housing options

In addition to contributing towards the Region's overall rental housing stock, it is anticipated that the proposed development will contribute towards the supply of affordable housing. The number of units that will qualify as affordable will be finalized at a later date, when final rents are determined and the Regions' rental affordability thresholds are updated. These thresholds are currently under review as part of the Affordable Housing Implementation Guidelines consultations. Regional staff will monitor this application throughout the development review and construction process in an attempt to ensure an affordability component.

It is worth noting that the development, as currently proposed, provides a good mix of unit sizes including 72 (39%) 2 bedroom and 16 (9%) 2 bedroom plus a den units. There appears to be strong demand for these larger sized family units.

The agreement and deferral of regional development charges will help facilitate construction of permanent market rental housing

The duration of the development charge agreement would be until the earlier of (i) 36 months or (ii) the sale of the property and would be interest free. Therefore, the Region would not receive the revenue generated by the interest on the development charge for the duration of the agreement. The agreement would stipulate that the York Region development charge deferral would be contingent upon the Town of Newmarket granting a similar development charge deferral and that the Region will grant no further concessions.

As part of the agreement, a restrictive covenant registered on title would require that the subject property be developed and operated as a rental apartment complex, which would protect the development from conversion to condominiums for a minimum of twenty years.

Regional staff met with the developer and Town of Newmarket staff a number of times in an attempt to better understand the request and facilitate construction of new rental units. A set of principles has been developed together with the Town of Newmarket staff. The developer has agreed, should the project be approved and the development charges deferral agreement executed, to abide by the principles (see *Attachment 1*). Additionally, regional staff will continue to work with the owner and Housing York Inc. to explore additional opportunities to provide affordable units.

Steps are being taken to mitigate the additional development charge collection risks associated with this proposal

As noted in the attached principles, the development charges agreement would be secured by a mortgage against the property, rather than a letter of credit and would be guaranteed by the owner's principal(s) and affiliated companies. Interest owing under the mortgage would be forgiven provided that the development charge is paid no later than the end of the 36 month deferral period. The developer has requested use of a mortgage rather than the usual letter of credit security due to revenue stream issues, as discussed above. A letter of credit can be drawn on like cash in the bank, while a mortgage is secured through equity in the subject property.

The Region's development charge revenue would be at risk if the developer is unable to complete the project and repay the lenders construction financing. In that case, the Region may not receive its development charges, even if the property was subsequently sold and rented. The developer has agreed to include York Region and the Town of Newmarket directly in negotiations with the bank(s) selected to finance construction and is planning further risk-mitigation measures such as interest rate hedging. The 20 year rental obligation would endure.

The pilot project may provide a foundation for future policy development

Upon approval of this report, regional staff will further develop and refine the proposed development charge deferral agreement with Malter Holdings Ltd. and its affiliated entities. This pilot project will provide staff with an opportunity to gain knowledge around possible support needed to stimulate private rental developments, without a serious financial burden being assumed by the Region. The approach taken for this project could be replicable for future developments and may help inform future policy. Regional staff will monitor progress and results and report back to Council on lessons learned as necessary.

Link to key Council-approved plans

The encouragement of new purpose built private rental has strong connections to the *2011 to 2015 Strategic Plan*, *York Region Plan (2010)* and *Vision 2051*.

The *2011 to 2015 Strategic Plan* indicators of success that would be supported through this pilot include an increase in the percentage of people living and working in York Region, as well as increases in the percentage of intensification and housing mix. Additionally a number of objectives and indicators of success under the Focus Growth along Regional Centres and Corridors Priority Area would be supported.

5. FINANCIAL IMPLICATIONS

Development charges for this project at current rates would be approximately \$3.9 million.

Council has previously approved development charge deferral policies for high-rise condominium and high-rise office developments. This policy permits the interest free deferral of the development charges due at building permit issuance for a period up to 18 months with the receipt of a letter of credit from the applicant.

Currently, there is no deferral policy with respect to purpose-built rental apartments. The proposed pilot project would permit the deferral of the regional portion of development charges due for a period up to 36 months and would not require a letter of credit, but would be secured through a mortgage on the property.

The opportunity cost of deferring the development charge collection by an additional 18 months would be approximately \$290,000 based on the Region's current cost of borrowing rate at 4.52 per cent. *Table 1* illustrates the opportunity cost between the two deferral periods:

Table 1

	Interest on \$3.9 million at 4.52%
36 month deferral	\$560,000
18 month deferral	\$270,000
Difference	\$290,000

Calculated amounts represent the cumulative totals for the respective deferral periods.

The development charge will be paid, at the prevailing rate, at the earlier of (i) the sale of the property; or (ii) 36 months after the building permit is issued.

6. LOCAL MUNICIPAL IMPACT

York Region and all nine local municipalities promote the development of a full mix and range of housing options, including rental options. This pilot will benefit the Town of Newmarket by directly supporting the creation of new purpose built rental units. Other municipalities will have the chance to gain insights into the opportunities and barriers to the construction of purpose built rental developments. Based on the results of this pilot, there may be opportunity to explore expanding this initiative to other developments.

7. CONCLUSION

Council has affirmed commitment to increasing the supply of purpose built private rental housing through their support and approval of the Regional Official Plan (2010) and the Draft 10-Year Housing Plan.

The Region has been approached by Malter Holdings Inc., to provide a development charge payment deferral in order to support an approximately 180 unit purpose built private rental development on a regional corridor and future Viva rapid transit line in the Town of Newmarket.

This development would support Regional policy direction and contribute towards a full mix and range of housing, thus supporting the larger economy. In this instance, the Region is sharing some business risk with the developer.

The recommendations in this report authorize staff to finalize negotiations, based on the attached principles and enter into a development charge deferral agreement with the developer and affiliated entities.

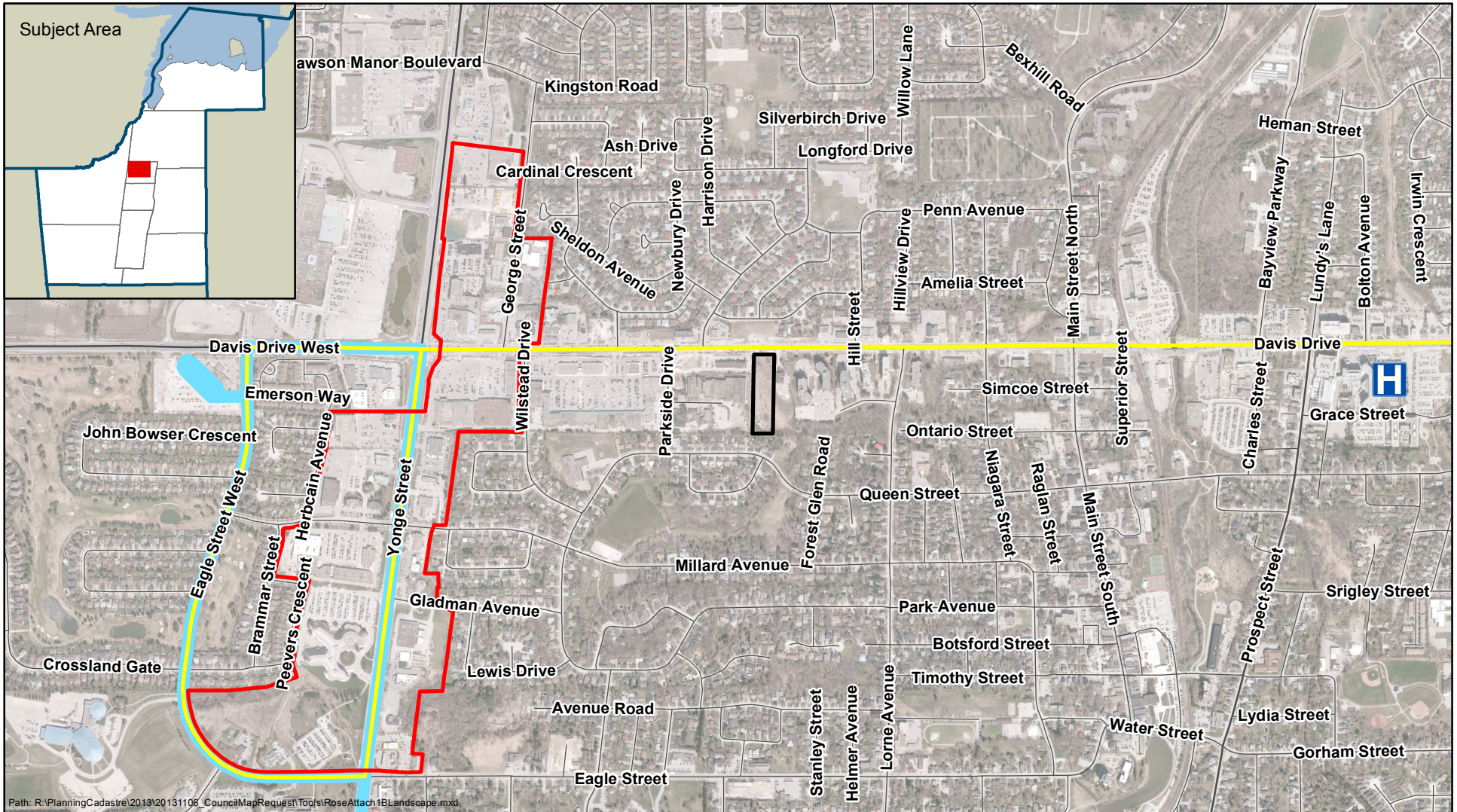
For more information on this report, please contact Valerie Shuttleworth, Director of Long Range Planning at 905 830-4444, Ext. 1525.

The Senior Management Group has reviewed this report.

(The two attachments referred to in this clause are attached to this report.)

**Private Market Rental Development Charges Deferral
Site Specific Pilot Project in the Town of Newmarket
Principles**

1. Development charge deferral is until the earlier of: (i) sale of the property; or (ii) the date that is 36 months after the date that the building permit is issued.
2. Development charge deferral is secured by Charge (registered against title to the property at the time that development charges would normally be payable), Assignment of Rents, and General Security Agreement in an amount sufficient to secure the development charge deferral amount and estimated cost to enforce; and such other security as the Regional Solicitor may require.
3. Charge shall be guaranteed by Owner's principal(s) and affiliated companies, their successors and assigns.
4. Charge shall bear interest at TD prime plus 2%. Interest shall be forgiven provided that the development charge deferral amount is paid on the balance due date.
5. Charge shall be subordinate to Owner's construction financing.
6. The Owner to pay York Region and Newmarket's legal expenses.
7. York Region development charge deferral is contingent upon Town of Newmarket offering similar or better incentives.
8. Owner's obligation to repay is included in Site Plan/Development Agreements and Development Charge Deferral Agreement to be registered on title.
9. Restrictive covenant registered on title requiring that property be developed and operated as a rental apartment complex for a minimum period of 20 years.
10. Units shall be typical rental apartment sizes including a substantial proportion that are 2 bedrooms or larger.
11. York Region to seek additional benefits for the Region such as discounted lease rates in favour of Housing York Inc., reduced rents on a specified number of units, and/or rent subsidized units. Malter to make an offer.
12. There will be no further concessions granted by the Region.



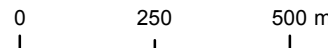
Path: R:\Planning\Cadastre\2013\20131106_CouncilMapRequest\Tools\RoseAttach1BLandscape.mxd

Subject Site

Private Market Rental Development Charges Deferral
Site Specific Pilot Project in the Town of Newmarket



Produced by:
Geographic Information Services and Long Range Planning
Office of the Chief Administrative Officer
© Copyright, The Regional Municipality of York, Nov. 2013
© Copyright, First Base Solutions Inc., 2013 Orthophotography
* Includes © Queen's Printer for Ontario 2003-2013



Legend

-  Subject Site
-  Hospital
-  Viva (Existing) Blue
-  Viva (Next) Yellow
-  Urban Growth Centre