

Encouraging Rental Housing in York Region



Executive Summary

The Regional Municipality of York (“York Region”) is the fastest growing municipality in the Greater Toronto Area (GTA). By 2031, York Region’s population is expected to reach 1.5 million (an increase of 45.3% from 2011). The demand for adequate and appropriate housing will continue to increase in the years to come. Rental housing is a vital component of any complete and healthy community.

The lack of rental housing in York Region has been a result of few purpose built market rental units constructed within the last decade (33 out of 10,570 housing starts in 2012 were private market rental). Those that may need rental housing more – seniors, newcomers, families, and young professionals – are increasing while adequate housing for their needs is not. This situation has also led to:

- An increased strain on the social housing stock (the waiting list is over 10,000 families long);
- An increased commute time for residents traveling to and from work outside of York Region; and
- Difficulty for employers to retain and attract valuable employees within the Region.

York Region, in partnership with the Human Services Planning Board (HSPB), created the Make Rental Happen campaign. In Fall 2014, York Region partnered with a Ryerson University Master of Planning Studio group, Group of Seven Consulting, to “rethink the York Region housing challenge, explore new ideas, and consider innovative solutions” by:

1. Identifying an incentives program needed to make the development of private market rental housing viable for the private sector in York Region; and
2. Identifying an organizational structure required within York Region to effectively implement this incentive program.¹

Approach

A four-pronged approach to this project was used including:

1. Interviews with private sector developers and advisors;
2. Pro forma analysis;
3. Case studies of over 30 municipalities across North America; and
4. Consultation with York Region Staff.

From this approach, a Rental Housing Incentives Program (RHIP) and Rental Housing Office (RHO) were recommended. These recommendations align with feedback from interviews with private developers on receiving incentives with the most financial impact, a municipality's role in implementing incentives, and minimizing costs and risks incurred to municipalities.

¹ Affordable Housing was not included in this project. These recommendations for the incentives program and organizational structure could have the potential to build an internal capacity and serve as a springboard for other housing issues such as affordability.

Rental Housing Incentive Program (RHIP)

Several types of financial and regulatory incentives were researched to encourage the development of purpose built private market rental housing. A priority was placed on recommending incentives that would be under Regional influence.

Pro forma analysis involving a costing method was used to assess each incentive’s impact on the profitability of a 100% rental development. This was followed by testing a combination of incentives to create the recommended incentive program. These tests were performed using assumptions and averages taken from a variety of sources outlined in this Report². The recommended incentive program is suggested based on impacts on profitability,³ contextual appropriateness, ease of implementation, and cost incurred by the municipality.

Three building typologies and corresponding “Base Case” scenarios were structured on the varying contexts of York Region which were used to test the incentives (see **Table A**).




Density Scenario	“Base Case” Typology	RHIP Program		“Base Case” IRR	IRR with RHIP
		Regional Incentives	Local Municipal Incentives		
 Higher Density	<ul style="list-style-type: none"> Centres and Corridors High-rise 200 units 	<ul style="list-style-type: none"> Property Tax Offset in the form of a Tax Increment Equivalent Grant (TIEG) Development Charge (DC) Deferral of payment (36 months) Expedited Process 	<ul style="list-style-type: none"> Density Bonus Parking Reduction 	7.84%	13.94%
 Medium Density	<ul style="list-style-type: none"> Around Centres and Corridors Low- to mid-rise 50 units 	<ul style="list-style-type: none"> TIEG DC Deferral (36 months) Expedited Process 	<ul style="list-style-type: none"> Density Bonus Parking Reduction Parkland Dedication Fee Waiver 	8.06%	13.76%
 Lower Density	<ul style="list-style-type: none"> Northern municipality Townhouse 20 units 	<ul style="list-style-type: none"> TIEG DC Deferral (36 months) Expedited Process 		11.03%	13.11%

Table A: Recommended Rental Housing Incentives Program⁴

In addition to recommending the incentive program, the cost was calculated for incentives with clear upfront costs or lost revenues to a municipality. Costs were calculated on a per unit basis and at specified targets of 200, 500 and 1000 units⁵ (see **Table B**).

² For more detailed information on the pro formas, refer to the accompanying **Technical Document** of the Report.

³ Internal Rate of Return (IRR) is the measurement used for assessing the profitability of a building or development. The recommended incentives in each case increase the respective typologies’ internal rates of return (IRR) to a feasible level (12% - 15%).

⁴ For more information about each incentive, see Section 2.5.0 on page 25 of the Report.

⁵ Targets of 200, 500 and 1000 units were used based on consultation with York Region Staff.

Cost to York Region of a Property Tax Offset				
Unit Type/ Mix	Per unit	200 units	500 units	1000 units ⁶
All Higher Density	\$6,818	\$1,363,752	\$3,409,380	\$6,818,760
All Medium Density	\$6,771	\$1,354,238	\$3,385,595	\$6,771,190
All Lower Density	\$8,018	\$1,603,740	\$4,009,350	\$8,018,700
Equal Unit Mix	\$7,202	\$1,440,576	\$3,601,440	\$7,202,880
Cost to York Region of Development Charges Deferral				
Unit Type/ Mix	Per unit	200 units	500 units	1000 units
All Higher Density	\$1,216	\$243,296	\$608,240	\$1,216,480
All Medium Density	\$1,216	\$243,296	\$608,240	\$1,216,480
All Lower Density	\$2,089	\$417,910	\$1,044,775	\$2,089,550
Equal Unit Mix	\$1,507	\$301,500	\$753,750	\$1,507,500

Table B: Costs of York Region Property Tax Offsets and Development Charges Deferral

One recommended incentive that only requires a reallocation of Staff is expedited processing. **Table C** depicts the amount saved by the developer as well as resulting change to the IRR.

Density Scenario	2 months saved		4 months saved		6 months saved	
	% Change in IRR	Amount saved per unit	% Change in IRR	Amount saved per unit	% Change in IRR	Amount saved per unit
Higher	0.25%	\$772	0.50%	\$1,544	0.75%	\$2,316
Medium	0.36%	\$386	0.73%	\$772	1.10%	\$1,158
Lower	0.35%	\$386	0.70%	\$772	1.05%	\$1,158

Table C: Municipal Tool - Expedited Processing

The incentive program would be flexible, and the incentives could be interchanged. Those suggested offer a relatively low cost to the municipality while offering a benefit to the developer (according to generated “Base Case” scenarios).

Rental Housing Office (RHO)

It is important to have a municipal administration office in place to implement necessary policies for the incentive program. The proposed Rental Housing Office (RHO) could provide the foundation for the implementation of the RHIP, located under the Office of the Chief Administrative Officer (CAO). The RHO would be a pilot project lasting for five years and could start with the employment of two seconded Regional staff with capacity to grow as needed. Locating the RHO under the Office of the CAO signifies that the RHO would have shared ownership, and underscores Council’s commitment to the rental housing issue.

Placement within the Office of the CAO positions the RHO to work and collaborate with local municipalities. The RHO would guide the development of private market rental housing by collaborating with key partners such as York Region’s local municipalities, senior levels of government, private developers, not-for-profit groups, and the community.

The functions of the RHO could include:

- Collaborating with local municipalities to encourage them to provide complementary incentives to the Regional ones;

⁶ Please note that 200, 500 and 1000 units were used based on consultation with York Region Staff.

- Researching, writing and reviewing the policy to implement the Regionally controlled incentives;
- Acting as a centralized point of contact for consistent and accurate information;
- Becoming a support system for private developers, internal departments, and local municipalities;
- Remaining nimble and flexible by being able to adapt to changing market conditions and needs of stakeholders;
- Managing and administering the incentives program(s), and facilitating the expedited processing of applications; and
- Setting targets, monitoring and evaluating both the incentive programs and the RHO itself.

It would be recommended that York Region consider this “Proposed Process” for establishing the RHO:

Phase	Actions
1: Laying the Foundation	✓ Build an “Implementation Team” ⁷ to create a detailed Work Plan for the RHO
2: Recommendation to Council	✓ Implementation Team to recommend that Regional Council establish the RHO
3: RHO Start-up	<ul style="list-style-type: none"> ✓ Collaborate with local municipalities on the incentives they could offer ✓ Develop policy for implementing the Regional incentives ✓ Recommend a Regional Incentive policy to Regional Council
4: Fully Operational	<ul style="list-style-type: none"> ✓ Work with local municipalities to market the incentives program ✓ Establish a rental housing target based on market conditions and achievability ✓ Monitor and evaluate the RHO annually
5: Final Evaluation (after five years)	<ul style="list-style-type: none"> ✓ Evaluate both the RHO and the incentive programs ✓ Decide to dissolve, create a permanent RHO or change the organizational structure into another entity to address a different housing issue

Table D: Proposed Process

Incentive Application Process

A sample brochure was created to outline the proposed incentive application process (see Section 3.6.8 on page 63 in the Report). This process works parallel and within the planning amendment application process, such as combining recommendation reports into one for a single vote at Council. The incentive application process would provide a framework for how expedited processing may be employed, but also would allow for safeguards for the municipality such as:

- Council approval of individual applications (ability to control incentives offered based on available funding);
- Deferral of certain incentives until the project is finished (offsetting risk from incomplete private housing developments); and
- An “Agreement to remain as rental” that would be registered on title (ensuring that units remain private market rental for a certain number of years).

⁷ It is recommended that an “Implementation Team” be made up of members of the HSPB (as they are the driving force behind this project and campaign), as well as the Departments of Long Range and Community Planning because they could become part of the RHO Staff.

Next Steps

The proposed next steps for York Region and the HSPB may include:

1. Establishing the RHO through Regional Council;
2. Collaborating with local municipalities, providing them with the resources necessary to assess the current housing crisis, and discussing working together to complete the RHIP;
3. Conducting more detailed pro forma scenarios on base cases within municipalities;
4. Researching and deciding how to implement the RHIP through legislation; and
5. Deciding upon an appropriate and achievable rental housing target for the RHO.