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**GROUP OF SEVEN**  
CONSULTING



# ENCOURAGING RENTAL HOUSING IN YORK REGION

*Final Report*

*Prepared for: Human Services Planning Board of York Region*

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Ryerson University

## Ryerson University Studio Group

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# 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.<sup>1</sup>

## 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.

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<sup>1</sup> 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 Report<sup>2</sup>. The recommended incentive program is suggested based on impacts on profitability,<sup>3</sup> 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"> <li>Centres and Corridors</li> <li>High-rise</li> <li>200 units</li> </ul>	<ul style="list-style-type: none"> <li>Property Tax Offset in the form of a Tax Increment Equivalent Grant (TIEG)</li> <li>Development Charge (DC) Deferral of payment (36 months)</li> <li>Expedited Process</li> </ul>	<ul style="list-style-type: none"> <li>Density Bonus</li> <li>Parking Reduction</li> </ul>	7.84%	<b>13.94%</b>
Medium Density 	<ul style="list-style-type: none"> <li>Around Centres and Corridors</li> <li>Low- to mid-rise</li> <li>50 units</li> </ul>	<ul style="list-style-type: none"> <li>TIEG</li> <li>DC Deferral (36 months)</li> <li>Expedited Process</li> </ul>	<ul style="list-style-type: none"> <li>Density Bonus</li> <li>Parking Reduction</li> <li>Parkland Dedication Fee Waiver</li> </ul>	8.06%	<b>13.76%</b>
Lower Density 	<ul style="list-style-type: none"> <li>Northern municipality</li> <li>Townhouse</li> <li>20 units</li> </ul>	<ul style="list-style-type: none"> <li>TIEG</li> <li>DC Deferral (36 months)</li> <li>Expedited Process</li> </ul>		11.03%	<b>13.11%</b>

**Table A:** Recommended Rental Housing Incentives Program<sup>4</sup>

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 units<sup>5</sup> (see **Table B**).

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

<sup>3</sup> 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%).

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

<sup>5</sup> 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 <sup>6</sup>
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;
- Researching, writing and reviewing the policy to implement the Regionally controlled incentives;

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

- 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” <sup>7</sup> 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"> <li>✓ Collaborate with local municipalities on the incentives they could offer</li> <li>✓ Develop policy for implementing the Regional incentives</li> <li>✓ Recommend a Regional Incentive policy to Regional Council</li> </ul>
4: Fully Operational	<ul style="list-style-type: none"> <li>✓ Work with local municipalities to market the incentives program</li> <li>✓ Establish a rental housing target based on market conditions and achievability</li> <li>✓ Monitor and evaluate the RHO annually</li> </ul>
5: Final Evaluation (after five years)	<ul style="list-style-type: none"> <li>✓ Evaluate both the RHO and the incentive programs</li> <li>✓ Decide to dissolve, create a permanent RHO or change the organizational structure into another entity to address a different housing issue</li> </ul>

**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).

<sup>7</sup> 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.



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## List of Acronyms

- AMD – Advanced Micro Devices Company
- CAO – Chief Administrative Officer
- CIP – Community Improvement Plan
- CMHC – Canada Mortgage and Housing Corporation
- CMU – Commercial Mixed use Zone
- CRD – Capital Regional District
- DC – Development Charge
- FSI – Floor Space Index
- GFA – Gross Floor Area
- GLA – Gross Liveable Area
- GST – Goods and Services Tax
- GTA – Greater Toronto Area
- GTHA – Greater Toronto and Hamilton Area
- HDC – Housing Development Corporation
- HR – Human Resources
- HSA – Housing Services Act
- HSPB – Human Services Planning Board
- HST – Harmonized Sales Tax
- IBM – International Business Machines Corporation
- IRR – Internal Rate of Return
- IT – Information Technology
- LIHTC – Low-Income Housing Tax Credit
- LTC – Loan to Cost ratio
- NC – Neighbourhood Commercial District
- NIMBY – Not In My Backyard
- NOI – Net Operating Income
- ONHPA – Ontario Non-Profit Housing Organization
- OP – Official Plan
- PST – Provincial Sales Tax
- RCF – Resilient Communities Fund
- RHIP – Rental Housing Incentive Program
- RHO – Rental Housing Office
- RM – Residential Multiple Dwelling Zone
- STIR – Short-Term Incentives for Rental
- TIEG – Tax Income Equivalent Grants
- VTPI – Victoria Transport Policy Institute

## 1.0.0 Introduction

### 1.1.0 Project Overview

Group of Seven Consulting has been retained by the Human Services Planning Board (HSPB) of York Region to identify and recommend incentives to encourage the construction of private sector purpose-built market rental housing.

In addition, the Group of Seven Consulting will identify and recommend an organizational structure that could facilitate the implementation of the recommended incentives. This will be achieved through the creation of a Report and Toolkit that will:

1. Recommend incentive packages to encourage private sector development of market rental units in York Region.<sup>8</sup> Recommendations will include a rationale based on business cases with metrics making the connection between incentives and financial feasibility for the private sector;
2. Recommend an organizational structure within York Region that will be required to implement the recommended incentive packages; and
3. Share the above-mentioned findings through presentations to the HSPB and Housing Steering Committee of Regional Council.

This Final Report is the Group of Seven Consulting's submission to the HSPB that recommends a set of incentive packages (the "Rental Housing Incentive Program") and an organizational structure ("the Rental Housing Office") that may encourage the construction of private sector participation in developing purpose-built market rental housing.

### 1.2.0 Key Definitions

**Incentive:**

Incentive is a tool (financial and/or regulatory) offered by Municipality and/or Federal/Provincial/Regional Governments to correct market failures by encouraging investments in the rental housing development.

**Organizational Structure:**

Organizational structure is an umbrella term used to cover a number of bodies with specific roles, power and responsibilities that support them to coordinate for implementing organization's strategy for solving rental housing issues.

**Purpose Built Private Market Rental Housing:**

Purpose built rental housing is built specifically and solely for rental purposes by the private sector that is guaranteed to remain as rental for a pre-determined period or life span of the building.

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<sup>8</sup> As noted in the "Public Sector Strategies for Increasing the Supply of Rental Housing Report" by the Regional Municipality of York, the package must be a "critical balance across a range of measures such as subsidy (preferred rate loans and grants), taxation (tax exemptions, credits and tax-based investment funds), regulatory and facilitative (deregulation and mortgage insurance), 2014, p.7.

### 1.3.0 Scope

The scope of this project is to primarily research incentives and organizational structures for the creation of purpose-built private market rental housing. Any discussion of affordable housing is for context purposes only. It should be noted that, many municipalities have incentives and organizational structures that deal specifically with affordable housing, however they provide valuable case studies that can be adapted to address the creation of purpose-built private market rental, as per the client's **Terms of Reference** (see **Appendix 1**).

### 1.4.0 Background

Housing provides the backbone for building vibrant, complete and healthy communities, which leads to better well-being and social inclusion of all residents. Providing a mix of housing types will not only meet the diverse needs of residents, but also allow residents to stay in their communities at all stages of their lives by having access to the economic opportunities and community resources.

Located in the heart of the Greater Toronto Area, York Region (see **Figure 1**) has undergone significant growth in the past few decades contributing to the demand for more housing options.

- The population growth between 2006 and 2011 in York Region was 15.7%, while in the same period; it was 5.7% in Ontario and 5.9% in Canada<sup>9</sup>.
- York Region's growth is projected to increase by 40% by 2031<sup>10</sup>.



**Figure 1** – Location Map of York Region

York Region (2009)

#### 1.4.1 How is York Region's population distributed?

Looking at the spatial distribution of York Region's population shows that the Town of Newmarket, Town of Richmond Hill, and City of Markham have the highest population densities in the Region. The Town of Aurora and City of Vaughan have medium population densities. The remaining municipalities have lower population densities (see **Table 1**).

According to the 2011 Census, 75% of residents within the Region live in City of Markham, the City of Vaughan and the Town of Richmond Hill<sup>11</sup>. In addition, these three municipalities contained 90% of York

<sup>9</sup> York Region. "2011 National Household Survey – Issues and Demographic Highlights". Clause No. 9, Report No. 1 of Committee of the Whole. 2014. p. 4.

<sup>10</sup> The Regional Municipality of York. "Taking Stock: An Overview of the Housing System in York Region". 2012. p. 2.

<sup>11</sup> York Region. "2011 National Household Survey – Issues and Demographic Highlights". Clause No. 9, Report No. 1 of Committee of the Whole. 2014. p. 4.



Region's recent immigrants between 2006 and 2011<sup>12</sup>. This highlights that the need for rental housing may be greater in these areas.

In addition, the pace of population growth is shifting towards other local municipalities. For example, Whitchurch-Stouffville had the largest population growth of 54.5% between 2006 and 2011<sup>13</sup>. Municipalities experiencing increased population growth may require more rental units in the future.

Population Profiles of York Region			
Municipalities	Population (2011)	Area (km <sup>2</sup> )	Persons per km <sup>2</sup> (Gross)
<b>Regional Municipality of York</b>	<b>1,032,524</b>	<b>1,762.17</b>	<b>585.9</b>
Town of Newmarket	79,978	38.33	2,086.3
Town of Richmond Hill	185,541	100.95	1,838
City of Markham	301,709	212.58	1,419.3
Town of Aurora	53,203	49.78	1,068.8
City of Vaughan	288,301	273.52	1,054
Town of Whitchurch-Stouffville	37,628	206.41	182.3
Town of Georgina	43,517	287.72	151.2
Town of East Gwillimbury	22,473	245.03	91.7
Township of King	19,899	333.3	59.7

Table 1: 2011 Population Profiles<sup>14</sup>

#### 1.4.2 What is the Housing Reality in York Region?

The lack of rental housing in York Region has been intensified due to few purpose built market rental units constructed within the last decade, a low rental vacancy rate, and a low proportion of rental housing in York Region. This current situation has increased the strain on the social housing stock, increased resident's time spent commuting to areas of employment, and made it difficult for employers to retain and attract valuable employees due to high housing costs.

- **Housing Starts:** In 2012, there were 10,570 housing unit starts developed in York Region. Of this amount, 237 of those units were rental and built by Housing York Inc., whereas only 33 units were private purpose built rental.<sup>15</sup>
- **Rental Vacancy Rate:** It is estimated that in 2013, rental vacancy in York Region was 1.6%, which is below the 3.0% healthy rental market rate as defined by the Canada Mortgage and Housing Corporation (CMHC).<sup>16</sup> York Region has the lowest rental mix and vacancy rates in the GTA.<sup>17</sup>
- **Proportion of Rental Housing:** In 2011, 28.4% of the Province of Ontario's households rented compared to the 11.5% in York Region, which is the lowest in the GTA.<sup>18</sup>
- **Pressure on Social Housing:** A lack of rental supply puts more pressure on the social housing system, which already has a waiting list of over 10,000.

<sup>12</sup> York Region. "2011 National Household Survey – Issues and Demographic Highlights". Clause No. 9, Report No. 1 of Committee of the Whole. 2014. p. 5.

<sup>13</sup> York Region. "2011 National Household Survey – Issues and Demographic Highlights". Clause No. 9, Report No. 1 of Committee of the Whole. 2014. p. 4.

<sup>14</sup> Statistics Canada. (2014). Census Profile 2011. Retrieved from <http://www12.statcan.gc.ca/census-recensement/2011/dp-pd/prof/index.cfm?Lang=E>.

<sup>15</sup> Human Services Planning Board of York Region. (2013). "Make Rental Happen: Creating the Conditions to Build Private Market Rental Housing," p.7.

<sup>16</sup> Ontario Non-Profit Housing Association and Co-operative Housing Federation of Canada Ontario Region (2010. "Where's Home: A Study of Affordable Rental Housing within 22 Communities in Ontario, May 2010." [Publication Online]. Ontario Non-Profit Housing Association and Co-operative Housing Federation of Canada; 2010, Retrieved from: [www.onpha.on.ca/AM/Template.cfm?Section=Where\\_s\\_Home&Template=/CM/ContentDisplay.cfm&ContentID=7648](http://www.onpha.on.ca/AM/Template.cfm?Section=Where_s_Home&Template=/CM/ContentDisplay.cfm&ContentID=7648)

<sup>17</sup> The Regional Municipality of York. "Taking Stock: An Overview of the Housing System in York Region". 2012.

<sup>18</sup> Human Services Planning Board of York Region. (2013). "Make Rental Happen: Creating the Conditions to Build Private Market Rental Housing," p.6.

- **Increase in Commute Time:** York Region has the lowest live/work ratio in the GTA at 53%, meaning that over half of the people have to leave York Region every day, which reduces economic competitiveness for the area<sup>19</sup>.

### 1.4.3 Who is affected by a lack of housing options?

The substantial population growth in York Region has resulted in a change in the demographic make-up and socio-economic needs, which has altered the traditional housing needs. The increasing diversity of York Region’s demographics means that building complete communities will require a variety of housing types and tenures for newcomers, families, seniors and young professionals.

- **Lack of Rental Housing:** In 2011, immigrants made up 45% of all residents in York Region, and of this portion, 5% were recent immigrants from 2006 to 2011<sup>20</sup>.
- **Seniors:** There is a projected doubling of seniors by 2031, which has created demand for affordable and adequate housing alternatives to ownership of a single detached home<sup>21</sup>.
- **Young Professionals:** A growing number of young professionals who wish to live and work in York Region, but are faced with the shortage of housing supply and high average monthly rental prices.

### 1.4.4 Why is rental housing unaffordable?

Few housing options and high housing costs make many residents in York Region spend more of their incomes on housing, which can cause increased stress and a decreased quality of life trying to make ends meet. The definition of affordable is set at 30% by CMHC.

- **Homeowners:** A large majority of York Region residents (88.5%) are homeowners, which are the highest portion in the GTA, reflect the lack of rental housing supply in York Region<sup>22</sup>.
- **Affordability:** Both homeowners (26%) and tenants (44.5%) pay 30% or more of their gross income on housing, which exceeds the affordability threshold set by CMHC<sup>23</sup>.

Approximately a quarter of low income residents, 38% of moderate income residents and 6% of high income renters spend between 30% and 50% of their household income on housing (see **Table 2**).

56% of low to moderate income renters spend 50% or more of their household income on housing, a number that CMHC deems as a serious affordability issue.<sup>24</sup> As a result York Region has identified a critical shortage of purpose built market rental housing in their municipalities (see **Table 2**).

<sup>19</sup> Human Services Planning Board of York Region. (2013). “Make Rental Happen: Creating the Conditions to Build Private Market Rental Housing,” p. 5.

<sup>20</sup> York Region. “2011 National Household Survey – Issues and Demographic Highlights”. Clause No. 9, Report No. 1 of Committee of the Whole. 2014. p. 5.

<sup>21</sup> Ibid.

<sup>22</sup> York Region. “2011 National Household Survey – Issues and Demographic Highlights”. Clause No. 9, Report No. 1 of Committee of the Whole. 2014. p. 8

<sup>23</sup> Ibid.

<sup>24</sup> Human Services Planning Board of York Region. (2013). “Make Rental Happen: Creating the Conditions to Build Private Market Rental Housing,” p.7.

Percent of Household Income Spent on Housing, within York Region						
Percentage	Owned			Rented		
	Low Income	Moderate Income	High Income	Low Income	Moderate Income	High Income
Less than 30% on Housing	12%	47%	91%	20%	52%	94%
More 30%-50% on Housing	16%	35%	8%	24%	38%	6%
More than 50% on Housing	71%	17%	1%	56%	10%	0%

Table 2: 2006 York Region Percent of Household Income Spent on Housing

## 1.5.0 Legislative Framework

This section provides a brief overview of the relevant planning and other legislation that govern York Region's ability to influence the creation of purpose-built private market rental housing. The Province mandates that York Region encourage affordable housing targets and implement policies that support communities offering a mix and range of housing options.

### 1.5.1 Provincial Policy Context

- The **Planning Act, 1990** is the provincial legislation that lays the framework for municipalities with potential planning tools that can be considered to help establish a mix and range of housing options (Section 2).
- The **Provincial Policy Statement, 2014** encourages the creation of complete and healthy communities that provide a variety of housing tenures and types, while protecting neighbourhood character and natural areas (Section 1).
- The **Growth Plan for the Greater Golden Horseshoe, 2006** promotes compact, vibrant and complete communities with directed growth in already built-up areas or near transit corridors (Chapter 1). There are four major growth centres in York Region, which includes Newmarket Centre, Vaughan Corporate Centre, Richmond Hill/Langstaff Gateway and Markham Centre. These areas could be targeted for more rental development encouragement as they will become areas well serviced by transit and further intensified with commercial developments.
- The **Municipal Act, 2001** governs the creation, powers, limitations, and governance structures of the municipalities in Ontario. This includes providing powers to pass by-laws relating to activities such as encouraging, protecting, retaining and preserving rental housing stock. The Act permits the provision of grants if it is considered to be in the interest of the municipality such as affordable housing. The Act permits municipalities to establish a Municipal Services Corporation to provide services such as Housing York Inc.

- The ***Development Charges Act, 1997*** allows municipalities to impose a fee requiring developers to pay for growth and the associated hard and soft services. It also allows a municipality to reduce or exempt certain projects from development charges in order to promote certain uses.
- The ***Housing Services Act, 2011 (HSA)*** addresses the need to administer and fund affordable housing and it is “the most significant change for housing in Ontario since the province downloaded social housing responsibilities to service managers.”<sup>25</sup> The *HSA* encompasses the entire housing continuum and provides municipal Service Managers (single and upper-tier municipalities) and their corresponding Local Housing Corporations with a more prominent role in decision-making and flexibility to address their community’s needs.

### 1.5.2 Regional Policy Context and Programs

- ***Vision 2051*** is York Region’s long-term strategic plan until 2051. One of the plan’s goals is to provide “appropriate housing for all ages and stages of life, [prevent] homelessness and [promote] healthier, active living.”
- The ***2011 to 2015 Strategic Plan*** is the four year plan to align with Regional Departments and Council’s goals. One of the plan’s goals is to “support healthy communities through a broad range of housing choices and supports to meet the diverse needs of residents.”
- The ***Regional Municipality of York Official Plan, 2010*** establishes a vision for York Region until 2031. The Regional OP establishes strategies and policies in regards to planning matters including the provision of affordable housing and a mix of housing types for a diverse population with varying housing needs. A mix of housing types is viewed as the key to allow residents to contribute economically and socially to York Region’s well-being (Section 3.5). This will occur as residents will be able to live and work within York Region and therefore support it.

In order to ensure the provision of affordable housing and a mix of housing types, York Region has planned to use targets, incentives, partnerships, and community education. York Region also works with its local municipalities to develop an implementation framework for affordable housing. The OP requires all local municipalities to adopt Secondary Plans that include an affordable housing strategy to achieve the targets within the York Region Official Plan (Section 3.5.5). These targets are as follows:

- A minimum of 25% of new housing units across York Region be affordable and be distributed within each local municipality;
- A minimum of 35% of new housing units in Regional Centres and key development areas be affordable; and
- To encourage that provision of intrinsically affordable housing.

Rental housing is also considered as an important strategy as the OP encourages the construction of new rental units with a full mix of range of unit sizes, including family-sized and smaller units (Section 3.5.20). The OP also has provision to advocate the Provincial and Federal governments to reinstate programs to support and promote the development of rental housing (Section 3.5.24).

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<sup>25</sup> OMSSA, “Housing and Homelessness,” n.d.

- The **York Region 10-Year Housing Plan** is York Region’s required legislated responsibility set out by the *Housing Services Act* to create this 10-year plan and support housing policies. The *Housing Plan* focuses on constructing complete communities that allow residents to remain in York Region and allow residents workers access to a mix and range of housing options. The plan has four goals and the two that are relevant are:
  1. Increase the rental housing supply
  2. Sustain the existing rental housing supply
- The **Draft Affordable Housing Implementation Guidelines, 2014** is a draft document that was put forth to Council in May 2014. The document recommends that York Region establish and set up a method of monitoring affordable housing targets, determining how the thresholds of affordable housing will be calculated and how municipal staff will carry out the monitoring of housing targets.
- The **Make Rental Happen Campaign** is being carried out by the HSPB. The Campaign educates and engages the community with initiatives such as video promotions that bring awareness to those who rent, a post-secondary ideas competition, and several conferences where professionals, industry leaders, and community members are able to brainstorm and share best practices.

The HSPB was created in response to rapid population growth in York Region, urban intensification, decrease in funding from provincial and federal governments, as well as an increase in population diversity (i.e. ethno-cultural, age, and socio-economic).

The goal of the HSPB is to build capacity within the human services sector by providing research, education, and opportunities for more people to work together including all levels of government and the community. One of the key issues the HSPB aims to address is the lack of affordable housing.

## 1.6.0 Developer Perspectives towards Market Rental Housing

From the outset, it was critical to recommend an incentive package and organizational structure that reflected the perceptions of private developers towards purpose built private market rental housing. Preliminary research revealed that there were a number of perceived barriers to building rental in York Region.

- **Cost of land:** The high cost of land due to speculation (as they are often held for future condominium projects) leads to an increased up-front cost, which is a hurdle for a rental housing developer.
- **Return on Investment:** Condominiums and other forms of homeownership offer a higher return on investment (as the building is often 75% sold before the developer breaks ground), which are what many developers seek. In terms of financing, loans for rental developments are more difficult to obtain than for a condominium because the risk may be greater for the lender due to the increased mortgage period.

- **Lack of senior government supports:** Developers are sceptical of provincial and federal supports, such as a tax system that has no incentives for rental housing yet subsidizes homeownership.
- **NIMBY (Not-In-My-Backyard) Culture:** NIMBY behaviour and negative perceptions towards rental can draw out the planning process and can sometimes cost the developer more time and money. As a result, most housing development in York Region has been in the form of single and semi-detached dwellings – 72% of all households in York Region can be described as this, while apartments account for a mere 12%. Condominium towers, located mostly in the southern municipalities and along transit corridors, are the most common style of multi-unit dwellings.

This research provided a foundation in understanding the market rental housing environment for private developers and helped to formulate the interview questions with the private sector.

### 1.6.1 Interviews: Context and Rationale

Interviews were conducted to understand the private sector perspective. This was done through discussions with key informants by assessing existing and potential incentive programs and organizational structures that could benefit the development of rental housing properties. This was to verify that the recommendations put forward by the Group of Seven Consulting in this Report would be received positively from the private sector and to gain insight into the preliminary research for the York Region context. Primary data was gathered through in-person and phone interviews.

The main goals of these interviews were to determine:

1. What are the existing barriers and enablers to developing private market rental housing?
2. What economic incentives would attract new private developers to invest in creating rental housing units in York Region?
3. What are the best ways to administer these incentive programs?
4. What are the most effective/applicable organizational structures in place?

### 1.6.2 Selection Method and Recruitment

In total, nine individuals were interviewed and have been involved in developing residential properties in the Greater Toronto and Hamilton Area (GTHA). Of the nine, six were developers who were involved in creating rental and private ownership housing units. One was from a mortgage broker organization, one was from a rental housing financial services company, and one was from a non-profit housing developer/provider.

**Private developers:** Individuals or organizations involved in the purchasing of land and developing it for residential purposes.

**Mortgage brokerage:** An organization that has their own equity fund, provides loans, and then either partially sells, or sells the mortgage to other financial institutions.

**Non-profit:** A housing organization that aims to create partnerships to develop and operate affordable housing.

Developers and organizations involved in residential property development were recruited via email and then asked to participate in a 45 minute interview. At first, the interview was conducted with the developers as suggested by the client and the supervisor. A snowball sampling technique was utilized

during the interviews. Each participant was asked to recommend additional contacts that were likely to provide further information about rental market housing.

### 1.6.3 Data Collection and Analysis

Two group members conducted each interview. After the completion of each interview, the interview notes of both group members were combined to create a summary of the findings. After the completion of the final interview, each interview summary was reviewed for key similarities to determine common perceptions between the private sector and not-for-profit sector about the most effective incentives, barriers, and partnerships.

### 1.6.4 Findings

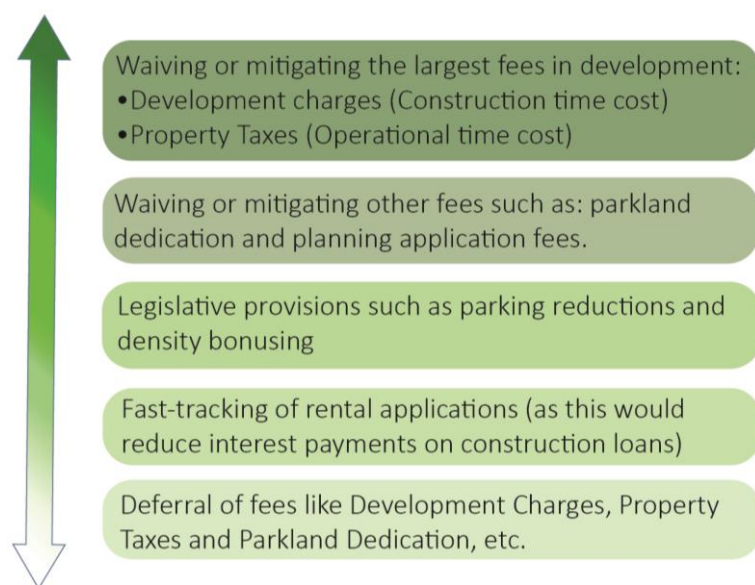
#### *Barriers*

Through the discussions with the various individuals, there were a few types of barriers that were identified as both common or as ones that we had not found in preliminary research. For many interviewees, it was stated that a barrier was having access to equity for developing rental properties (as it is a different type of investment than a traditional condominium). The difference for rental properties is that there are no pre-sales to increase the deposit and aid of the loan, and associated upfront costs. Additionally, there is no guarantee of tenants moving in quickly or staying for long periods of time. This creates risk in estimating annual cash flow, as there may not be tenants and the building may sit vacant for a prolonged time period.

Other barriers we had not found before the interviews included barriers at both the Provincial and Federal level. At the Federal level, during the development of a condominium, the builder is able to pass the Harmonized Sales Tax (HST) to the buyer when the unit is sold. Similarly, this cost can be passed onto tenants; however, this increases the rental rates potentially making it unaffordable. At the Provincial level, the inflation rate may in fact be greater than the rate of rent increase allowed to landlords by the *Rental Tenancy Act*. This suggests that the cost of maintaining rental properties may have an impact on the return.

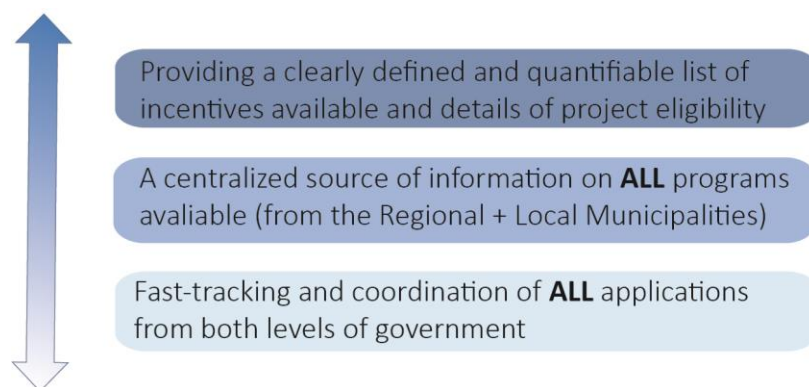
#### *Incentives*

Throughout the interviews, incentives were mentioned as ideal or needed for the development of purpose-built private market rental housing. They are displayed in Figure 2 from the most effective and impactful (darker green) to having an effect but being less impactful (lighter green) on a developer's perception to build private market rental units.



**Figure 2: Suggested incentives discussed during interviews**

Additionally, the development interviewees indicated that there were roles that a municipal office could play that would help with the implementation of the incentives. These roles are listed in **Figure 3**. While all three roles were cited as important, the most useful are indicated in darker shades of blue.



**Figure 3: Municipal Role in Rental Development**

The collected information was used to inform the recommendation of incentives that could be implemented in York Region, as well as the kind of organizational structure needed to administer them.

### 1.6.5 Other Findings

The findings discussed here were not mentioned in most interviews (in many instances it was only one interview). However, we have included them as they offered various insights into the issues of encouraging private market rental in York Region that we had not found from any other source.

#### *#1: Position of the Municipality on a Construction Loan*

Through a deferral of development charges, the municipality is essentially providing a loan for the developer to pay the fees once the project is in a cash flow position. As well, the municipality can



release its first position on receiving its payment from the construction loan by the lender. The lender will then receive payments first should the project default. This places a greater risk on the municipality, but reduces the risk for lender. This will also increase the likelihood of a private developer obtaining financing at a potentially better rate.

### *#2: How to determine appropriate rents*

Determining appropriate rent for a property is a delicate balance when there are few surrounding rental properties available to use as a baseline. Rental rates have a substantial effect on IRR. Through the interview process, it was found that a rental rate increase of approximately 20% from the \$1252.00 monthly rate used was suggested as having a substantial impact on the IRR margin. This impact on the IRR would provide a strong incentive in itself. Furthermore, the Region and local municipalities would not need to offer as many incentives to encourage private market rental housing. That being said, whether or not the market in York Region could sustain such rents remains to be seen.

### *#3: Link between smaller developers and pension funds or investment companies*

Another potential partnership that emerged was linking developers with larger investment groups such as pension funds who are involved in rental projects. This can take the form of a forward sale, where a contract is created between a developer and an investment group. The investment group will purchase a portion or all units at a predetermined price. This would enable the developer to assume no responsibility of being a property manager and receive a more timely profit.

## 2.0.0 Incentives and Municipal Tools

### 2.1.0 Overview

The lack of rental housing stock in York Region is largely due to the unattractiveness of developing rental housing compared to other forms of housing such as condominium or single-detached dwellings. In order to encourage developers to build rental housing as opposed to ownership, incentives granted by York Region, local municipalities or the Federal/Provincial government may be necessary. Additionally, municipal tools can be used by York Region to encourage or facilitate the construction of rental housing.

#### **Incentives:**

Incentives are provisions that can help increase the attractiveness to invest in the rental housing by improving relative profitability. From a municipal perspective, this can be either regulatory or financial in nature. Different incentives will offer differing benefits to a developer at different stages in the development process.

#### **Municipal Tools:**

A municipal tool is a process or regulation that a municipality would be able to control and apply to different projects. These tools can also function as incentives, but differ in that they require a municipality to continually utilize its resources (i.e. staff, lands, etc.).

This section investigates and recommends numerous incentives and municipal tools that York Region along with its local municipalities can implement to encourage developers to build private market rental housing. These include a variety of both regulatory and financial incentives, and municipal tools. The incentives selected for investigation were influenced by interviews with developers, municipal staff, and organizations or agencies involved in the development of rental and private property. These incentives and municipal tools include:

Regulatory Incentives	Financial Incentives	Municipal Tools
<ul style="list-style-type: none"> <li>Property Tax Waiver or Offset (TIEG)</li> <li>Development Charges Waiver or Deferral</li> <li>Density Bonusing</li> <li>Parking Requirement Reduction</li> <li>Parkland Dedication Fee Waiver</li> <li>Application Fee Waiver</li> </ul>	<ul style="list-style-type: none"> <li>GST (Goods and Services Tax) and PST (HST) Waiver</li> <li>Federal/Provincial Tax Credit</li> <li>Capital Grant/Reserve Fund</li> </ul>	<ul style="list-style-type: none"> <li>Land Leasing</li> <li>Inclusionary Zoning</li> <li>Expedited Processing</li> </ul>

**Table 3: Regulatory and Financial Incentives and Municipal Tools**

Each regulatory and financial incentive was evaluated for three different housing typologies or “Base Cases”. These typologies are hypothetical rental buildings consisting of:

- “Higher Density”;
- “Medium Density”; and
- “Lower Density”.

These typologies are explained in the following “Methods” subsection. The evaluation was performed to test the effectiveness and appropriateness of the individual and combined incentives in different contexts within York Region. All incentives in isolation are insufficient and require a combination with others to be effective. Therefore, three “Incentive Packages” with the most effective incentives for each “Base Case” has been evaluated and recommended for the varying contexts of the Region. These “Incentive Packages” are what composes the recommended “Rental Housing Incentive Program” (RHIP) that York Region could investigate using.

### 2.2.0 Method

The incentives provided were tested by measuring the effect on the three “Base Cases”, in order to determine effectiveness and costs incurred by York Region and/or the local municipality. This subsection describes the method used in generating the three “Base Cases”, as well as the method used in applying the provided incentives onto the “Base Cases”. This section also outlines all assumptions and their rationale for use.

### 2.3.0 Target Internal Rate of Return (IRR)

For testing the effectiveness of the individual and eventually combined incentives, a target Internal Rate of Return (IRR) of 12% - 15% has been set. The returns in all three “Base Cases” do not satisfy the targeted IRR without the application of incentives.

**Internal Rate of Return (IRR):**  
IRR is the means of measuring the feasibility of an investment. If the IRR is higher the investment is more attractive.

### 2.4.0 “Base Case” Generation

Three “Base Cases” were generated for different areas within York Region. It is assumed that each “Base Case” is held by the property owner for 10 years of operation and is then sold. This allows for the appreciation of the asset (the rental property) to be incorporated into the analysis. The IRR for each “Base Case” is displayed in **Table 4**. Furthermore, these “Base Cases” all assume that 100% of the building is composed of rental units.

Base Case Rate of Return and Amount Needed for 15% IRR		
"Base Case"	IRR	Rent Rate Needed for 15% IRR (Current assumption = \$1,252)
Higher Density	7.84%	\$1,670
Medium Density	8.06%	\$1,660
Lower Density	11.03%	\$1,570

Table 4: Base Case IRR and rent needed to achieve 15% IRR

#### 2.4.1 “Higher Density”

The “Higher Density Base Case” was generated for application in Regional Centres and Corridors.

### **Regional Centres and Corridors:**

Regional Centres and Corridors support public transportation infrastructure, increase residential and commercial development and provide a mix of housing choices.

These are primarily the areas of:

- Downtown Richmond Hill;
- Highway 7 Corridor;
- Markham Centre;
- Vaughan Metropolitan Centre; and
- Yonge Street Corridor.

Permitted FSI (Floor Space Index) and maximum permitted building heights are assumed from the *Vaughan Metropolitan Centre Secondary Plan* for areas immediately surrounding the “Core”. This is an FSI of 4.5, and maximum permitted building height of 25 floors. 200 private market rental units have been assumed. This is equivalent to approximately 256 units per acre. Building form assumed is that of a high-rise apartment building with parking provided below grade. The assumptions, building information summary, and “Base Case” for the “Higher Density” scenario can be seen in the **Technical Document**.

#### **2.4.2 “Medium Density”**

The “Medium Density Base Case” was generated for application in areas around the Centres and Corridors, and for other denser neighbourhoods throughout the region such as:

- City of Markham;
- City of Vaughan;
- Town of Aurora;
- Town of Newmarket; and
- Town of Richmond Hill.

Permitted FSI and maximum building heights are assumed from the Commercial Mixed use Zone, CMU-1 Zoning designation in the City of Vaughan *Zoning By-Law 1-88*. This is an allowable FSI of 2.0, and a maximum building height of four floors. 50 private market rental units have been assumed or approximately 114 units per acre. Building form assumed is that of a low to mid-rise apartment building with parking provided below grade. The assumptions, building information summary, and “Base Case” for the “Medium Density” scenario can be seen in the **Technical Document**.

#### **2.4.3 “Lower Density”**

The “Lower Density Base Case” was generated for application in neighbourhoods throughout York Region, but primarily for denser neighbourhoods in the northern municipalities of:

- Town of East Gwillimbury;
- Town of Georgina;
- Town of Whitchurch-Stouffville; and
- Township of King.

Maximum lot coverage of 50% is assumed from the RM-1 zoning designation from the East Gwillimbury *Zoning By-Law 1997-050*, as well as a maximum building height of 11 metres. A development 20 units large has been assumed or 41 units per acre. Building form is that of a 2-storey townhouse with parking

provided either by a surface driveway or in a rear laneway. The assumptions, building information summary, and “Base Case” for the “Lower Density” scenario can be seen in the **Technical Document**.

## 2.5.0 General Assumptions

### 2.5.1 Rental Rates

The “base” rental rate for a 1-bedroom apartment has been assumed from the *York Region Draft Affordable Housing Implementation Guidelines*. This is a monthly rent rate of **\$1,252**. For 2-bedroom and 3-bedroom rates, these have been determined by calculating the ratio between 2 or 3-bedroom rents to 1-bedroom rents provided by CMHC in the *2013 Market Rental Report*, and applying these ratios to the York Region 1-bedroom rent rate. The assumed monthly rent rates may vary depending on various building types such as mid-rise apartments, high-rise apartments, or townhouses. CMHC’s rates are provided as an average for York Region.

The rents assumed for all unit configurations are as follows:

- 1 Bedroom, \$1,252/month;
- 2 Bedroom, \$1,440/month; and
- 3 Bedroom, \$1,658/month.

### 2.5.2 Unit Sizes

Average unit sizes have been taken from Altus Group’s *2013 Government Charges and Fees on New Homes in the Greater Toronto Area*. Average unit sizes are as follows:

- 1-bedroom, 600 sq. ft.;
- 2-bedroom, 920 sq. ft.; and
- 3-bedroom, 1310 sq. ft.

### 2.5.3 Vacancy Rates and Rent Increase Rate

Both vacancy rates and rent increase rates have been assumed from CMHC in the *2013 Market Rental Report*. These data have been provided as an average for York Region and varies by building type. These vacancy rates are assumed to begin in the first year of a building’s operation and continue throughout the holding period. Rent increase rates also apply to each year of operation.

The vacancy rates assumed are as follows:

- “Higher Density Base Case”
  - 1-bedroom, 1.5%;
  - 2-bedroom, 1.0%.; and
  - 3-bedroom, 2.1%.
- “Medium Density Base Case”
  - 1-bedroom, 1.5%;
  - 2-bedroom, 1.0%.; and
  - 3-bedroom, 2.1%.
- “Lower Density Base Case”
  - 1-bedroom, 0.0%;

- 2-bedroom, 1.3%; and
- 3-bedroom, 2.2%.

The rent increase rates assumed are as follows:

- “Higher Density Base Case”
  - 1-bedroom, 3.4%;
  - 2-bedroom, 3.1%; and
  - 3-bedroom, 4.0%.
- “Medium Density Base Case”
  - 1-bedroom, 3.4%;
  - 2-bedroom, 3.1%; and
  - 3-bedroom, 4.0%.
- “Lower Density Base Case”
  - 1-bedroom, 1.0%;
  - 2-bedroom, 2.2%; and
  - 3-bedroom, 3.3%.

#### 2.5.4 Construction

The cost of construction has been estimated using the *2014 Altus Cost Guide*. This guide provides a cost in dollars per square foot (sq. ft.) of Gross Liveable Area (GLA). GLA pertains to all areas of a residential building that can be inhabited (the rental units). GLA is assumed to be 70% of Gross Floor Area (GFA) in the *2014 Altus Cost Guide*. GFA pertains to the entire sq. ft. area of the building. This includes all common areas, storage, and parking. Parking costs are included in the GLA cost estimates as below grade spaces in a structure. For building types where parking is provided above grade, the cost of parking is not included and must be estimated separately. This has been performed for the “Lower Density Base Case”. HST is also not included in the cost estimates.

#### 2.5.5 Land Costs

Land costs have been estimated using values provided by MCAP in the *Spring 2014 Breakfast Seminar* hosted by the Toronto Development Finance Group. Cost estimates are provided as a function of proposed GFA sq. ft. Figures are provided for the Highway 7/Yonge Corridors, as well as for the City of Vaughan generally. These values are assumed for the “Higher Density” and “Medium Density” land costs. For the “Lower Density” lands costs, an inventory of various vacant lots for sale in areas of interest revealed an average asking price per acre.

The land costs assumed are as follows:

- “Higher Density Base Case”, \$31.35 per sq. ft. GFA;
- “Medium Density Base Case”, \$24.75 per sq. ft. GFA; and
- “Lower Density Base Case”, \$485,899 per acre of land.

#### 2.5.6 Soft Costs

Costs associated with hiring consultants for specific tasks as well as other involved parties such as architects, land surveyors, and engineers, have been included and is to be equal to 25% of the hard costs

(costs of construction). These costs will vary greatly by project and context, however for the purpose of this exercise, 25% is an appropriate assumption. This value does not include government charges and/or fees. These are included separately.

### **2.5.7 Parking Costs**

While parking costs are included in the *2014 Altus Cost Guide* for apartments, they are not included in the estimate for townhouses. Therefore, for the “Lower Density” scenario, average parking construction costs per space were taken from the *2013 Transportation Cost and Benefit Analysis II – Parking Costs* report by the Victoria Transport Policy Institute (VTPI). For the purposes of estimating the effect of a parking reduction, average parking space construction costs have also been taken from the *2013 Transportation Cost and Benefit Analysis II – Parking Costs* report by VTPI for residential below grade urban parking structures.

The parking costs assumed are as follows:

- “Higher Density Base Case”, \$35,000 per space (below grade structure);
- “Medium Density Base Case”, \$25,000 per space (below grade structure); and
- “Lower Density Base Case”, \$3,000 per space (surface parking).

### **2.5.8 Development Charges and Property Tax**

Development charges and property taxes have been estimated as an average of the local municipalities in which each “Base Case” is applied. This means that development charges and property taxes levied on each “Base Case” varies. These figures were then added to the York Region development charge rate and property tax rates, as well as Provincial rates and charges.

### **2.5.9 Utilities and Maintenance**

Charging for utilities and maintenance varies between property owner and leaser. For the purposes of this exercise, a 5% of rental income maintenance cost is assumed for the property owner as is an 8% of rental income operating expense cost. This returns on average an overall annual cost per unit that is comparable to the U.S. average as found by the National Apartment Association’s *2014 Survey of Operating Income & Expenses*. This assumes that the tenant pays for their personal utilities, while the property owner pays for the utilities of common areas. This also accounts for management fees, advertising fees, and amenities.

### **2.5.10 Building Permit Fee**

Building permit fees have been estimated by using an average of the local municipalities’ rates provided in their building by-laws. The rates vary by location due to the difference in rates set by each local municipality.

The rates for the building permit/application fees are as follows:

- “Higher Density Base Case”, \$0.90 per sq. ft. GFA;
- “Medium Density Base Case”, \$0.90 per sq. ft. GFA; and
- “Lower Density Base Case”, \$1.05 per sq. ft. GFA.

### 2.5.11 Parkland Dedication Fee

This has been estimated in a similar manner to the building permit fee. They are as follows:

- “Higher Density Base Case”, \$7,800 per unit;
- “Medium Density Base Case”, \$7,800 per unit; and
- “Lower Density Base Case”, 5% of appraised land value.

### 2.5.12 Public Art Contribution

A 1% charge of construction costs has been assumed for public art contribution; which has been taken from Altus Group’s *2013 Government Charges and Fees on New Homes in the Greater Toronto Area*. This contribution fee only applies to the “Higher Density” and “Medium Density” scenarios.

### 2.5.13 Financing

Financing has been assumed based primarily on CMHC’s example of construction loans for newly constructed rental apartments. This assumes a loan-to-cost (LTC) ratio of 75%, with a construction period of two years. The interest rate is assumed to be Business Prime (3%) plus 4% to more closely reflect a higher interest rate for the construction period.

As for permanent financing, the construction loan end balance after accruing interest is assumed to be the starting balance. A 25 year amortization period has been assumed with an interest rate of Business Prime (3%) plus 2%.

### 2.5.14 Capitalization Rates

Capitalization rates are assumed from the *Q3 2013 Colliers International Canada Cap Rate Report*. The average cap rate provided for multi-family dwellings in the GTA has been assumed as both the entry and exit rate.

#### Capitalization Rates:

A capitalization rate is a measure used to compare the value of different real estate properties. A capitalization rate is typically used to indicate the strength of a certain real estate market, as well as estimating the value of a real estate property. A low capitalization rate typically indicates a strong market with higher real estate value.

Capitalization rates are therefore used to estimate the value of a real estate property. This is performed at both “entry” and “exit”. The entry capitalization rate is used to estimate the value of a real estate property when its operation commences. The exit capitalization rate is used to estimate the value of a real estate property when the property is being sold.

## 2.6.0 Process

### 2.6.1 Development Costs



All development costs associated with each “Base Case” were added together to return a total development cost. This cost was then used to determine construction loan and permanent financing. This includes interest payments during construction and debt service payments during operation.

### **2.6.2 Pro Forma Setup**

Once the three “Base Cases” were generated, a pro forma setup was created for each. This begins with determining annual effective gross revenue from rent, which is equal to gross revenue less vacancy. To determine Net Operating Income (NOI), maintenance fees and hydro/utility fees are then subtracted from effective gross revenue. NOI is used to determine building value, and eventually, property taxes.

#### **Pro Forma:**

A pro forma in real estate is a document that accounts for incomes and expenses for a property. It is essentially a financial statement used to estimate or measure annual overall cash flow from a property. The annual cash flows are used to determine IRR.

Subtracting the debt service payments from NOI returns the annual revenue for the property before taxes. Building sale cost is determined by dividing the NOI for the year after sale over the capitalization rate. The permanent financing end balance, as well as a 5% of the sale fee is then subtracted from the sale value to determine income from sale. IRR is calculated for all years of the development process and building operation. This is a before tax calculation and does not include depreciation, capital gains tax or income tax.

### **2.6.3 Incentive and Municipal Tool Testing**

Each of the incentives and municipal tools were separately applied to the three “Base Cases”. This was done to evaluate the individual effect each incentive and tool has on each “Base Case”. This analysis identifies the incentives and tools that could be effective and appropriate for encouraging the construction of rental housing.

The cost for either York Region or a local municipality was also tested for incentives where cost is incurred, or lost revenue is experienced. This was tested on a per unit basis for three targets. These targets are the construction of 200, 500, and 1000 units as requested. Each target is tested for each “Base Case” as well as an equal “Base Case” unit mix.

### **2.6.4 Rental Housing Incentive Program (RHIP)**

The RHIP consists of three separate “Incentive Packages” for each “Base Case”. The incentives and municipal tools found to be most effective and appropriate were combined together to create a feasible IRR (12% - 15%) for each “Incentive Package”.

Testing the combination of incentives and municipal tools was performed differently than the individual incentives test. Rather than adding the effect of the results of the individual incentive or tool tests together, a separate case was created for each “Base Case” combining the incentives and tools into a single pro forma. This allowed for the incentives and tools to impact one another and result in a unique IRR.

### **2.6.5 Limitations**

It is important to note that the three “Base Cases” are hypothetical cases derived from a large number of averages within the GTA, as well as a large number of assumptions for general application. Furthermore, some of the assumptions may not imply market conditions. The “Base Cases” are meant to provide a general representation of prospective rental projects without the application of incentives.

As a result of the “Base Cases” being a representation, the application of incentives and municipal tools are therefore likely to differ when applied to rental developments. The application of incentives within this report are meant to demonstrate what could make a rental development in York Region feasible, as well as provide an idea of what effect the various incentives and tools could have. Recommendations were informed from these findings.

## 2.7.0 Incentive and Municipal Tool Testing

This portion of the report will present the individual findings of the tests completed on the various incentives and municipal tools. The incentives are presented first, followed by municipal tools, and finally Federal/Provincial incentives.

### 2.7.1 Incentive: Property Tax Waiver or Offset

#### *Description*

Property tax payments are made by a property owner which includes three separate rates. These rates are the Regional municipality rate, the local municipality rate, and the provincial education rate. These rates are then applied to the property value, which is assessed at market value.

Property tax payments may be altered through legislated reductions to property classes, cancellations for specific eligible properties or offset via Tax Income Equivalent Grants (TIEGs). Legislated reductions would reduce the tax ratio of a property class (i.e. multi-residential properties), whereas full waivers would occur at a site-specific level. TIEGs are municipally provided grants that are equivalent to property tax increments, which occur as a result of development. Grants are provided starting at the full amount of the increment and progressively decrease until the end of a predetermined period of time. For the tests performed here, the ITEG is structured to reduce by 10% each year until building sale.

Property tax alterations are controlled by both the Regional and local municipality. The effect on IRR from the waiving or offsetting of property tax through a TIEG is displayed in **Table 5**, the revenue lost by the Regional and local municipality from property tax waiving is displayed in **Table 6**, and the lost revenue from offsetting property taxes through a TIEG is displayed in **Table 7**. Important to note for the lost revenue of a property tax offset is that it is estimated from the TIEG structure discussed here. The lost revenue will vary depending on the TIEG structure.

<b>Incentive: Property Tax Waiver</b>			
<b>"Base Case"</b>	<b>% Change in IRR</b>		
	<b>Regional Waiver</b>	<b>Local Waiver</b>	<b>Waive Both</b>
Higher Density	0.79%	0.44%	1.23%
Medium Density	0.80%	0.55%	1.34%
Lower Density	0.88%	0.80%	1.68%
<b>Incentive: TIEG, Property Tax Offset (Tax Increment Equivalent Grant)</b>			
<b>"Base Case"</b>	<b>% Change in IRR</b>		
	<b>York Region Waiver</b>	<b>Local Municipality Waiver</b>	<b>Waive Both</b>
Higher Density	0.47%	0.26%	0.73%
Medium Density	0.47%	0.32%	0.80%
Lower Density	0.53%	0.48%	1.02%

Table 5: Change in IRR resulting from either a property tax waiver or offset (TIEG)

<b>Annual Cost of Waiving Property Tax for York Region and Local Municipalities</b>			
<b>Unit Type/Mix</b>	<b>York Region Unit Targets:</b>		
	<b>200 Units</b>	<b>500 Units</b>	<b>1000 Units</b>
All Higher Density	\$279,063	\$697,658	\$1,395,316
All Medium Density	\$277,882	\$694,705	\$1,389,411
All Lower Density	\$336,858	\$842,145	\$1,684,290
Equal Unit Mix	\$297,934	\$744,836	\$1,489,672
	<b>Local Municipality Unit Targets:</b>		
	<b>200 Units</b>	<b>500 Units</b>	<b>1000 Units</b>
All Higher Density	\$153,671	\$384,177	\$768,353
All Medium Density	\$190,944	\$477,360	\$954,721
All Lower Density	\$306,831	\$767,077	\$1,534,155
Equal Unit Mix	\$217,149	\$542,871	\$1,085,743
	<b>Combined Unit Targets:</b>		
	<b>200 Units</b>	<b>500 Units</b>	<b>1000 Units</b>
All Higher Density	\$432,734	\$1,081,835	\$2,163,670
All Medium Density	\$468,826	\$1,172,066	\$2,344,131
All Lower Density	\$643,689	\$1,609,222	\$3,218,445
Equal Unit Mix	\$515,083	\$1,287,708	\$2,575,415

Table 6: Annual lost revenue for a municipality for the waiving of property taxes

Cost of a Property Tax Offset (TIEG) for York Region and Lower-Tier Municipalities			
Unit Type/Mix	York Region Unit Targets:		
	200 Units	500 Units	1000 Units
All Higher Density	\$1,363,753	\$3,409,384	\$6,818,767
All Medium Density	\$1,354,238	\$3,385,596	\$6,771,192
All Lower Density	\$1,603,740	\$4,009,350	\$8,018,700
Equal Unit Mix	\$1,440,577	\$3,601,443	\$7,202,886
	Local Municipality Targets:		
	200 Units	500 Units	1000 Units
All Higher Density	\$750,973	\$1,877,431	\$3,754,863
All Medium Density	\$930,552	\$2,326,381	\$4,652,762
All Lower Density	\$1,460,785	\$3,651,963	\$7,303,925
Equal Unit Mix	\$1,047,437	\$2,618,592	\$5,237,183
	Combined Unit Targets:		
	200 Units	500 Units	1000 Units
All Higher Density	\$2,114,726	\$5,286,815	\$10,573,630
All Medium Density	\$2,284,791	\$5,711,977	\$11,423,954
All Lower Density	\$3,064,525	\$7,661,312	\$15,322,625
Equal Unit Mix	\$2,488,014	\$6,220,035	\$12,440,070

Table 7: Lost revenue from property tax offsets (TIEG)

### Findings and Recommendation

Property tax alterations provide a slightly greater benefit to the “Lower Density” scenario than the “Higher” or “Medium Density” scenarios. This is because the tax rate for apartment buildings is less than townhouses. Additionally, Regional alterations provide a greater impact than local alterations. This is due to Regional rates being greater than local rates. The benefits from this incentive are temporally distributed, providing an increase in net operating income for each year. Regional property tax offsets are recommended for all incentive packages over waivers and legislated reductions. This is due to increased complexity associated with waivers and reductions.

The individual pro forma for waiving property and offsetting property tax via a TIEG for the Regional rate, local rate, and both rates can be seen in the **Technical Document**.

See 4.2.1 *Policy Implementation* on page 67 for information regarding implementation.

#### 2.7.2 Incentive: Development Charges Waiver or Deferral

##### Description

Development charges are levied onto the developer to pay for new or expanded city services and infrastructure. This infrastructure is typically required to support new or expanded growth. Depending on the type of building, a specified payment on a per unit basis may be charged by both the Regional and local municipality. Payments are typically paid as a lump sum by the developer when the building

permit is issued. Development charges can be reduced in the amounts owed or deferred in their payments for various types of development (i.e. rental).

**Table 8** displays the effect of both the waiving of development charges and the deferral of development charges. For the purposes of testing a deferral, the development charges are not required to be paid till 36 months after operation commences. **Table 9** displays the revenue lost by the region or the local municipality. To calculate cost of deferring development charges, the average 2014 inflation rate was assumed from Bank of Canada at 1.9%.

<b>Incentive: Development Charges Waiver</b>			
<b>"Base Case"</b>	<b>% Change in IRR</b>		
	<b>York Region Waiver</b>	<b>Local Municipality Waiver</b>	<b>Waive Both</b>
Higher Density	1.97%	0.97%	2.95%
Medium Density	1.99%	0.97%	2.98%
Lower Density	3.35%	0.93%	4.35%
<b>Incentive: Development Charge Deferral (York Region Only)</b>			
<b>"Base Case"</b>	<b>Details</b>	<b>% Change in IRR</b>	
Higher Density	36 Month Deferral	0.39%	
Medium Density	36 Month Deferral	0.39%	
Lower Density	36 Month Deferral	0.57%	

**Table 8: Change in IRR resulting from a development charge waiver or deferral (36 months)**

<b>Cost of Waiving Development Charges for York Region and Local Municipalities</b>			
<b>Unit Type/Mix</b>	<b>York Region Unit Targets:</b>		
	<b>200 Units</b>	<b>500 Units</b>	<b>1000 Units</b>
All Higher Density	\$4,188,280	\$10,470,700	\$20,941,400
All Medium Density	\$4,188,280	\$10,470,700	\$20,941,400
All Lower Density	\$7,194,200	\$17,985,500	\$35,971,000
Equal Unit Mix	\$5,190,253	\$12,975,633	\$25,951,267
	<b>Local Municipality Unit Targets:</b>		
	<b>200 Units</b>	<b>500 Units</b>	<b>1000 Units</b>
All Higher Density	\$2,067,780	\$5,169,450	\$10,338,900
All Medium Density	\$2,042,718	\$5,106,795	\$10,213,590
All Lower Density	\$2,046,900	\$5,117,250	\$10,234,500
Equal Unit Mix	\$2,052,466	\$5,131,165	\$10,262,330
	<b>Combined Unit Targets:</b>		
	<b>200 Units</b>	<b>500 Units</b>	<b>1000 Units</b>
All Higher Density	\$6,256,060	\$15,640,150	\$31,280,300
All Medium Density	\$6,230,998	\$15,577,495	\$31,154,990
All Lower Density	\$9,241,100	\$23,102,750	\$46,205,500
Equal Unit Mix	\$7,242,719	\$18,106,798	\$36,213,597
<b>Cost of Deferring Development Charges for York Region (36 Months)</b>			
<b>Unit Type/Mix</b>	<b>York Region Unit Targets:</b>		
	<b>200 Units</b>	<b>500 Units</b>	<b>1000 Units</b>
All Higher Density	\$243,297	\$608,241	\$1,216,483
All Medium Density	\$243,297	\$608,241	\$1,216,483
All Lower Density	\$417,910	\$1,044,775	\$2,089,550
Equal Unit Mix	\$301,501	\$753,753	\$1,507,505

**Table 9: Revenue lost from the deferring or waiving of development charges**

### *Findings and Recommendation*

Development charge waiving at the Regional level provides a greater increase in IRR than waiving at a local level. This is due to the Regional rate being greater than the local rate as a result of increased levels of servicing. Furthermore, due to the townhouse development charge rate being greater than the apartment rate, a greater change in IRR is observed for the “Lower Density” case. A deferral of development charges payment provides lesser increases in IRR. However, this would greatly decrease the loss of revenue for a municipality and provides benefit to a developer by shifting capital costs to operating costs. This has the effect of improving the availability of debt financing, and reducing accumulated interest costs. Therefore, deferral of development charges payments are recommended in all incentive packages.

The individual building summaries and pro forma for waiving or deferring of development charges for the Regional rate, local rate, and both can be seen in the **Technical Document**.

See 4.2.1 Policy Implementation on page 67 for information regarding implementation.

### 2.7.3 Incentive: Density Bonusing

#### Description

Residential zoning designations regulate the maximum permitted density that may be constructed on a given lot. Generally, a site that is zoned for a low density will offer a lower return on investment than if zoned for a higher density. This is simply because more units can be constructed on lots with greater permitted density. A municipality can enter into an agreement with a developer to increase the maximum permitted density beyond what is it currently zoned in exchange for a negotiated community benefit (i.e. rental housing units).

Density bonusing is controlled at a local level of government. The resulting effect on IRR created by a density bonus for each scenario is displayed in **Table 10**. For the purposes of testing a density bonus, a 25% bonus has been assumed. This is a result of increasing the maximum permitted FSI above 4.5. 4.5 FSI is the maximum permitted density for areas immediately surrounding the “Node” in the *Vaughan Metropolitan Centre Secondary Plan*, while the permitted FSI of the “Node” is between 3.5 and 6.0 FSI.

Incentive: Density Bonusing		
"Base Case"	Details	% Change in IRR
Higher Density	25% Density Bonus	0.44%
Medium Density	25% Density Bonus	0.36%
Lower Density	25% Density Bonus	0.22%

Table 10: Change in IRR resulting from a density bonus (25%)

#### Findings and Recommendation

Density bonusing as an incentive increases the IRR due to more units’ are constructed. Density bonusing, however, is less appropriate in “Lower Density” areas. Thus, density bonusing is recommended only in the “Higher Density” and “Medium Density” scenarios.

The building summaries and pro forma for density bonusing can be seen in the **Technical Document**.

#### Implementation

Density bonusing is currently permitted through Section 37 of the *Planning Act*. Density bonusing requires a local municipality to define Section 37 Agreements in its *Official Plan* if it has not already been complete. Additionally, density bonusing would require continual negotiated agreements between a municipality and developers on a site-by-site basis to avoid being constituted as an illegal tax.

See 4.2.1 Policy Implementation on page 67 for information regarding implementation.

### 2.7.4 Incentive: Parkland Dedication Fee (Cash in-lieu) Waiver

#### Description

Residential developments are required to set aside a minimum percentage of the lot in which they are constructed upon for the purposes of dedicated open space or parkland. Alternatively, a developer may provide a cash in-lieu payment that is equivalent to the set aside appraised value of the land. This rate varies, but is typically 5%-10% of the subject lands. In the northern local municipalities of York Region it is 5% of the subject lands, while in the southern local municipalities, it is typically set at a rate charged on a per-unit basis.

Parkland dedication requirements are controlled by the local municipality. The effect of waiving the parkland dedication fee and the expected lost revenue is displayed in **Table 11**.

	Incentive: Parkland Dedication Fee Waiver		
"Base Case"	Details	Lost Revenue	% Change in IRR
Higher Density	\$7,800 Per Unit	\$1,560,000	0.73%
Medium Density	\$7,800 Per Unit	\$390,000	0.74%
Lower Density	5% of Appraised Value	\$11,661	0.05%

**Table 11: Change in IRR resulting from a parkland dedication fee waiver**

### *Findings and Recommendation*

Parkland dedication fee waiving is found to be most effective in the “Higher” and “Medium Density” base cases. This is because in these local municipalities in which these scenarios are tested, the parkland dedication fee is levied on a per-unit basis. In the “Lower Density” scenario, the parkland dedication fee is levied as the appraised value of land to be set aside. Land values in the northern local municipalities are typically lower.

Parkland dedication fee waiving can be implemented without incurring a direct cost to the local municipality. The cost incurred by the local municipality would be that of lost revenue as opposed to direct spending. Parkland dedication fee waiving is recommended in both “Higher” and “Medium” “Incentive Packages” due to its impact on IRR.

The building summaries and pro forma for parkland dedication fee waiver can be seen in the **Technical Document**.

See *4.2.1 Policy Implementation* on page 67 for information regarding implementation.

### **2.7.5 Incentive: Parking Requirement Reduction**

#### *Description*

Municipal land use zoning by-laws set minimum parking spaces required for lots or parcels of all land use designations. Constructing parking spaces can be costly, particularly for parking that is below-grade. As an incentive to construct rental units, a local municipality may offer a reduction in the minimum amount of parking spaces required.

Parking requirements are controlled by the local municipality. The impacts upon IRR found through a reduction in required parking are displayed in **Table 12**. The selected reduction amount is equivalent to the amount used by the City of Vancouver in the zoning designation Neighbourhood Commercial District “NC-1”. This is a maximum parking requirement of 0.70 spaces per unit. This zoning designation was used in the Short-Term Incentives for Rental (STIR) and Rental 100 programs.



Incentive: Parking Reduction		
"Base Case"	Details	% Change in IRR
Higher Density	0.70 Spaces/Unit	3.65%
Medium Density	0.70 Spaces/Unit	1.62%
Lower Density	0.70 Spaces/Unit	0.19%

**Table 12: Change in IRR resulting from a parking reduction (0.70 spaces per unit)**

### *Findings and Recommendation*

The effect of a parking requirement reduction increases as density increases due to the number of spaces required and the necessity for parking to be provided below-grade. Parking reductions can be implemented at a low upfront cost to a local municipality and assist in accomplishing other transportation planning objectives. Outside of a higher density context, however, parking requirement reductions become increasingly inappropriate because of the increasing lack of transportation alternatives to private auto.

A parking reduction is recommended in the “Higher Density” scenario and “Medium Density” scenario. A parking reduction is not recommended for the “Lower Density” scenarios because of the lower impact on IRR and the context of these areas.

The building summaries and pro forma for parkland dedication fee waiver can be seen in the **Technical Document**.

See 4.2.1 *Policy Implementation* on page 67 for information regarding implementation.

### **2.7.6 Incentive: Building Permit/Application Fee Waiver**

#### *Description*

Each local municipality requires that a developer pay for a building permit and application fee when applying for the development of a building; and for the operation of the building upon the completion of construction. These fees vary as they can include fees for *Official Plan* amendments, fees for plans of subdivision or condominium, and site plan approval. A local municipality and/or Regional municipality require these fees and subsequent actions be paid and performed before the developer can begin the construction of a building or demolition of a property. To receive an application approval, the application must be reviewed by municipal (both Regional and local) Staff to ensure that the proposal meets the standards within the respective *Official Plan*, zoning by-law, and other related legislation.

Typically, the costs of these fees are low when compared to other government charges and fees. For example, an *Official Plan* amendment in York Region costs a maximum of approximately \$14,200. However, the waiving of these fees can be provided as an incentive for developers to construct rental units. **Table 13** displays the effect on IRR waiving these fees would create.

Incentive: Building Permit/Application Fee Waiver			
"Base Case"	Details	Lost Revenue	% Change in IRR
Higher Density	\$0.90 Per Sq. Ft.	\$196,328	0.09%
Medium Density	\$0.90 Per Sq. Ft.	\$49,082	0.09%
Lower Density	\$1.05 Per Sq. Ft.	\$31,320	0.14%

**Table 13: Change in IRR resulting from the waiving of building permit/application fees**

### *Findings and Recommendation*

For all three scenarios, the change in IRR is relatively minimal. This suggests that waiving application fees would make an insignificant difference. The waiving of application fees does appear to be most effective for the “Lower Density” case, where the total development costs may be lower in comparison to the other higher density “Base Cases”. The waiving of the application fees would therefore serve as a less effective incentive, while incurring a loss of revenue onto both the Regional and local municipality. It is therefore not recommended.

The building summaries and pro forma for application fee waivers can be seen in the **Technical Document**.

### **2.7.7 Incentive: Municipal Grant/Reserve Fund**

#### *Description*

Municipal grants or reserve funds would function as the Regional or local municipality providing a sum of money to an organization for satisfying a requirement. This is a means of incentivizing certain types of development. In the case of incentivizing rental units, York Region or a local municipality could provide a grant on a per-unit basis for rental units or establish a reserve fund to accumulate the money to be granted on a per-unit basis. A reserve fund could be funded by either general municipal revenue, from land leasing/sales, rental incomes from municipally owned housing or donations.

A municipal grant can be controlled by both a Regional and local municipality. Displayed in **Table 14** is the effect a grant would have on IRR for each scenario. Additionally, **Table 15** is the anticipated cost such a grant would incur on either York Region or a local municipality. For the purposes of testing the effectiveness of this incentive, a grant in the form of \$5000 per a unit is assumed. This is a similar grant amount compared to various municipalities in Vancouver Island. This incentive is intended to assist the initial costs of developing a rental building.

Incentive: Capital Grant/Reserve Fund		
"Base Case"	Details	% Change in IRR
Higher Density	\$5000 per Unit	0.64%
Medium Density	\$5000 per Unit	0.65%
Lower Density	\$5000 per Unit	0.61%

**Table 14: Change in IRR resulting from a grant (\$5000 per unit)**

Cost of Grants or Reserve Funds for York Region or Local Municipality				
Grant/Reserve Amount Per Unit	Fund	Unit Targets:		
		200 Units	500 Units	1000 Units
\$1,500		\$300,000	\$750,000	\$1,500,000
\$5,000		\$1,000,000	\$2,500,000	\$5,000,000
\$15,000		\$3,000,000	\$7,500,000	\$15,000,000

Table 15: Cost incurred on a municipality issuing a capital grant

### Findings and Recommendation

The observed change on IRR is comparable for all three scenarios. . However, it is costly for issuing municipalities in comparison to a relatively moderate increase in IRR. For this reason this incentive is not recommended.

The building summaries and pro forma for municipal grants can be seen in the **Technical Document**.

#### 2.7.8 Municipal Tool: Expedited Processing

##### Description

All proposals for development must go through the approval process of the local municipality in which the development will occur. If a development falls within Regional jurisdiction (i.e. along Regional roads) or requires Regional planning document amendments, these development proposals must also go through a Regional approval process.

A municipality may expedite an application process by consolidating and prioritizing applications for certain developments, as well as by providing technical guidance or support throughout the process. The reduction in processing time will result in reduced carrying costs for a developer and allow for rent revenue to be collected sooner, which has a multiplicative effect of reducing interest accumulation.

The amount of time saved through an expedited process is based upon the average time saved from Vancouver’s STIR pilot program. A non-expedited process took between 15-18 months, which was reduced by 5-8 months through STIR. This was an average saved time of approximately 6 months.

As for the amount saved specifically, this was based on the 2013 *A Review of the Site Plan Approval Process in Ontario* by Altus Group. This report found that the average cost per month per unit for a developer awaiting a building permit is \$1,930. Changes in IRR expected from this incentive are displayed in **Table 16**. Changes are displayed as a result of two, four, and six months of time saved.

Municipal Tool: Expedited Processing						
“Base Case”	2 Months Saved		4 Months Saved		6 Months Saved	
	% Change in IRR	Amount Saved	% Change in IRR	Amount Saved	% Change in IRR	Amount Saved
Higher Density	0.25%	\$772,000	0.50%	\$1,544,000	0.75%	\$2,316,000
Medium Density	0.36%	\$193,000	0.73%	\$386,000	1.10%	\$579,000
Lower Density	0.35%	\$77,200	0.70%	\$154,400	1.05%	\$231,600

Table 16: Change in IRR resulting from expedited processing

## Findings and Recommendation

As more time is saved, expedited processing results in a higher IRR increase. Additionally, in the six month time saving range, a high impact was observed for all scenarios. Additionally, this incentive may also include providing informational resources to a developer, which can potentially remove the labour burden and provide an ongoing benefit. It is recommended York Region pursue expedited processing through the Rental Housing Office (RHO) described in subsequent sections of the report.

The building summaries and pro forma for expedited processing can be seen in the **Technical Document**.

Implementing an expedited processing of rental development applications may occur through the RHO described in subsequent sections of this report.

### 2.7.9 Municipal Tool: Land Leasing

#### Description

Land leases are an arrangement between a municipality and a developer or organization. This agreement involves a municipality leasing the rights to occupy land they own for a portion of time in exchange for a payment. This type of agreement enables a developer to build upon municipally owned land without purchasing it, potentially reducing the costs and risks of development. It does however, increase risk for the leasing municipality. Various municipalities in Ontario such as the City of Toronto currently use land leasing as an incentive for affordable and rental housing.

This type of incentive does not require any amendments to existing policies. Under the *Municipal Capital Facilities Agreements*, municipalities have the ability to create relationships with other sectors and provide capital assistance in delivering a public good (i.e. rental units). The length of the lease is typically the expected life of the building, which for the purposes of testing this incentive is estimated as 60 years. Payment made by the lessee can be through regular payments. It was assumed that a regular payment was made.

The lease amount is based on the value of the land at time of lease multiplied by a percentage determined by the municipality. Typically, a lessee pays 75% of the value over the anticipated lifespan of the building (60 years). This is a typical lease structure practiced by the City of Vancouver, as well as the City of Toronto. Both a Regional and local municipality can lease land. Changes in IRR expected from this incentive are displayed in **Table 17**.

Municipal Tool: Land Leasing		
"Base Case"	Details	% Change in IRR
Higher Density	75% Value over 60 Years	1.94%
Medium Density	75% Value over 60 Years	1.24%
Lower Density	75% Value over 60 Years	0.96%

Table 17: Change in IRR resulting from land leasing

## Findings and Recommendation

Leasing land results in a significant IRR increase for all scenarios. It has the greatest impact for the "Higher Density" case due to the higher cost of land associated with this typology. With a relatively high impact on the IRR and the municipality maintaining ownership of the land, it is recommended York

Region pursue land leasing where applicable. Income received from land leasing can also assist in offsetting the cost of providing other incentives, which do incur a cost onto the municipality.

The building summaries and pro forma for land leasing can be seen in the **Technical Document**.

### 2.7.10 Federal/Provincial Incentive: GST and PST (HST) Waiver

#### Description

All real estate property in Ontario is taxable as per the Harmonized Sales Tax (HST). HST is taxable at a rate of 13%. Some exemptions to HST are provided in Schedule V of the *Excise Tax Act* including the sales of “used” residential property, long-term residential leases, low cost residential leases, and common expenses. However, most of the construction costs and operating expenses are subject to HST. For the purposes of providing a Provincial incentive to developers to construct private rental housing, the waiving of HST on the cost of construction has been waived.

The levying of HST is controlled by the Province of Ontario. **Table 18** displays the changes in IRR associated with the waiving of HST levied onto construction costs.

Incentive: GST & PST Waiver	
"Base Case"	% Change in IRR
Higher Density	1.98%
Medium Density	2.00%
Lower Density	1.86%

**Table 18: Change in IRR resulting from the waiving of GST/PST (HST)**

#### Findings and Recommendation

In all three scenarios, waiving HST upon construction costs results in a significant increase in IRR. This incentive is therefore equally effective in all three “Base Cases”. However, the implementation of this incentive is not under the control of York Region and/or local municipalities. Therefore, this incentive is not included in any of the “Incentive Packages” covered in the following subsection. It is recommended further, that York Region lobby the Province for full or partial waiving of HST.

The building summaries and pro forma for HST waiving can be seen in the **Technical Document**.

### 2.7.11 Federal/Provincial Incentive: Federal/Provincial Tax Credit

#### Description

A Federal/Provincial tax credit can provide a monetary incentive for developers to construct private market rental housing units. It is important to note that such a credit does not exist. The structure of this incentive is therefore based entirely upon an existing tax credit in the U.S. This is the Low-Income Housing Tax Credit (LIHTC). The LIHTC credit is intended to offset an investor’s tax burden, as well as stimulate the construction of affordable housing units. The tax credits are generally non-refundable for private developers and can be earned over a minimum required period.

The LIHTC functions in a multi-step process. First, the Federal government annually distributes a monetary amount to each State based on population. The State then typically allows a housing agency

to control the distribution of the funds to investors (lenders). A developer must apply to a lender to receive financing for a development, as well as apply for tax credits. If a lender is satisfied with the developer’s proposal, the lender will then grant the developer tax credits annually. Typically, the amount granted covers 70% of the cost of constructing the affordable housing units. This amount is distributed over the specified time period.

For the purposes of testing this incentive in York Region, the LIHTC’s structure has been duplicated. 70% of the cost of constructing rental units is covered by the credit and distributed over the holding period of the building (10 years). The LIHTC is applied to the before-tax cash flow to reduce the taxable income. A tax credit would be under the control of primarily the Federal Government, followed by the Government of Ontario. The changes resulting in IRR from the tax credit are displayed in **Table 19**.

<b>Incentive: Provincial/Federal Tax Credit</b>		
<b>"Base Case"</b>	<b>Details</b>	<b>% Change in IRR</b>
Higher Density	70% of Unit Construction Cost	7.04%
Medium Density	70% of Unit Construction Cost	7.12%
Lower Density	70% of Unit Construction Cost	6.47%

**Table 19: Change in IRR resulting from a federal/provincial tax credit**

*Findings and Recommendation*

A Federal/Provincial Tax Credit increases the IRR by a large amount in all of the scenarios. This is because the cost of construction is being offset and therefore a tax credit would be effective for all types of rental housing. As a tax incentive, a Federal/Provincial tax credit would be controlled by the Federal Government. Regional and local municipalities would only be able to facilitate the program. It is unlikely a LIHTC structure would exist in application to private market rental units. The LIHTC in the U.S. is specifically designed to encourage the construction of affordable housing units. However, the creation of tax credit for rental units has clear potential to act as an incentive. It is recommended that York Region lobby the Federal government to consider creating such a tax credit.

The building summaries and pro forma for federal/provincial tax credits can be seen in the **Technical Document**.

**2.7.12 Rental Housing Incentive Program**

The “Rental Housing Incentive Program” (RHIP) consists of three “Incentive Packages” that correspond with the three “Base Cases” considered. Incentives were applied incrementally to a single pro forma to create in the combined packages. It is important to note that in considering the composition of the “Incentive Packages”, the calculations assume developments are composed of 100% rental units, therefore providing cases where the most incentives would need to be applied.

**2.7.13 Higher Density Incentive Package**

*Description*

The “Higher Density” typology consists of a high-rise building with a large number of residential units (200+). This is focused to be placed within and along the Centres and Corridors of York Region. This will reflect and support the high density growth anticipated for these areas.

The incentives selected and their incremental effect is displayed in **Table 20**.

<b>Higher Density Incentive Package</b>		
<b>Incentive</b>	<b>% Change in IRR</b>	<b>Resulting IRR</b>
<b>Higher Density Base Case</b>	-	<b>7.84%</b>
Density Bonus (25%)	0.44%	<b>8.28%</b>
Parking Reduction (0.70 Spaces/Unit)	3.68%	<b>11.96%</b>
Expedited Processing (6.5 Months Saved)	1.26%	<b>13.22%</b>
Development Charge Deferral (York Region Only)	0.36%	<b>13.58%</b>
TIEG (Property Tax Offset, York Region Only)	0.36%	<b>13.94%</b>

**Table 20: Higher Density Incentive Package**

See 4.2.1 *Policy Implementation* on page 67 for information regarding implementation.

### **2.7.14 Medium Density Incentive Package**

#### *Description*

The “Medium Density” typology consists of a low to mid-rise building with a moderate number of units (50). This is focused to be placed around the Centres and Corridors, as well as in denser neighbourhoods and communities within York Region. This is to reflect the existing character of these areas.

The incentives selected and their incremental effect is displayed in **Table 21**.

<b>Medium Density Incentive Package</b>		
<b>Incentive</b>	<b>% Change in IRR</b>	<b>Resulting IRR</b>
<b>Medium Density Base Case</b>	-	<b>8.06%</b>
Density Bonus (25%)	0.36%	<b>8.42%</b>
Parking Reduction (0.70 Spaces/Unit)	2.61%	<b>11.03%</b>
Expedited Processing (6.5 Months Saved)	1.24%	<b>12.27%</b>
Parkland Dedication Fee Waiver	0.78%	<b>13.05%</b>
Development Charge Deferral (York Region Only)	0.37%	<b>13.42%</b>
TIEG (Property Tax Offset, York Region Only)	0.34%	<b>13.76%</b>

**Table 21: Medium Density Incentive Package**

See 4.2.1 *Policy Implementation* on page 67 for information regarding implementation.

### **2.7.15 Lower Density Incentive Package**

#### *Description*

The “Lower Density” typology consists of low-rise buildings, typically townhouses with a small number of units (20). This is focused to be placed in lower density municipalities such as Georgina, East Gwillimbury, King, and Whitchurch-Stouffville.

The incentives selected and their incremental effect is displayed in **Table 22**.

Lower Density Incentive Package		
Incentive	% Change in IRR	Resulting IRR
<b>Lower Density Base Case</b>	-	<b>11.03%</b>
Expedited Processing (6.5 Months Saved)	1.14%	<b>12.17%</b>
Development Charge Deferral (York Region Only)	0.57%	<b>12.74%</b>
TIEG (Property Tax Offset, York Region Only)	0.37%	<b>13.11%</b>

Table 22: Lower Density Incentive Package

See 4.2.1 *Policy Implementation* on page 67 for information regarding implementation.

## 2.8.0 Rationales

### 2.8.1 Selected Incentives

#### *Property Tax Offset (TIEGs)*

Property tax offsets are recommended for all incentive packages because of the strong impact on IRR it provides through increasing Net Operating Income (NOI). TIEGs are recommended over waiving or reductions for two reasons:

1. The implementation of TIEGs as an incentive is less complex than waivers or reductions not requiring either the creation of a new by-law or ministerial approval; and
2. TIEGs reduce the risk assumed by a municipality for a project that defaults or does not fulfill specifications in the grant agreement.

Less risk is assumed by the municipality because property taxes owed are received and the TIEG can be withheld (thus resulting in no revenue lost), whereas waivers or reductions would result in lost revenue regardless of project outcomes.

Additionally, the declining value of a TIEG better targets the earlier stage of the development process (i.e. before a rental development can accumulate significant revenue). TIEGs to offset York Region property taxes are recommended over locally provided TIEGs to allow for greater Regional control over the incentive implementation, and to encourage local municipalities to participate by demonstrating leadership.

It should be noted that a TIEG must be implemented through a CIP (under Section 28 of the *Planning Act*). Since York Region is a Regional municipality, there are only three prescribed matters for which it can establish a CIP (O.Reg 550/06): affordable housing; infrastructure under their jurisdiction; and areas near planned transportation corridors that have the potential for increased intensification and development. Thus, where the Region of York is interested in creating a CIP and providing TIEGs to encourage private market rental housing, they would only be able to do so along ‘planned transportation corridors.’



### **What is a Community Improvement Plan (CIP)?**

A CIP is a tool allowing a municipality to direct funds and implement policy initiatives toward a specifically defined project area after a thorough and complete study of community needs.

Section 28 of the *Planning Act, 1990* permits municipalities to designate CIP and create CIPs that adhere to the definition of ‘community improvement’ under Section 28, and is the only mechanism that a municipality may override Section 106 of the *Municipal Act, 2001*. Grants and loans may be provided for the following: environmental site assessment, environmental remediation, development, and redevelopment, as well as construction and reconstruction of lands and buildings for the rehabilitation process (Sec. 28 (7.1)). (See **Appendix 2** for more information.)

### *Deferral of Development Charges Payment*

Development charge deferrals are recommended in all incentive packages over waiving due to substantially lower lost revenue incurred by a municipality. While not as attractive to a developer as waiving due to a lower impact on IRR, deferrals primarily provide the benefit of shifting development charges costs from a capital expense to an operating expense (i.e. after a development begins to generate revenue from rent). This will allow for improved debt financing in addition to reduced carrying costs and accumulated interest.

Additional incentives are required, however, to compensate for lower IRR increases from deferrals as oppose to waivers. The deferral of York Region development charges are recommended over local development charge deferrals to allow for greater Regional control over implementation and encourage local municipalities to participate by demonstrating leadership.

### *Expedited Processing*

Expedited processing is recommended for all “Incentive Packages” because of the high impact on IRR it provides by decreasing carrying costs and allowing for revenue from rent to be generated earlier. Additionally, expedited processing may be provided by including support for developers in submitting applications and navigating the application process. This may result in additional benefits of reducing overall municipal Staff time required to process a development by reducing the need for several iterations of applications. Expedited processing is recommended to occur through the RHO proposed in subsequent sections of this report. This would allow for greater Regional control over incentive implementation, and to encourage local municipalities to participate by demonstrating leadership.

### *Parking Requirement Reductions, Density Bonusing, and Parkland Dedication Fee Waivers*

Parking requirement reductions and density bonusing are recommended in the “Higher” and “Medium Density” “Incentive Packages”, but are omitted from the “Lower Density” package. This is due to contextual appropriateness. The “Higher” and “Medium Density” typologies are located near or within areas that have access to alternative modes of transportation (i.e. public transit) and have existing servicing infrastructure (i.e. roads, sewers, hydro, etc.). Fewer transportation alternatives and lesser servicing infrastructure exist or may be non-existent in low density areas making parking reductions and density bonusing inappropriate. In the “Higher” and “Medium Density” case, parking requirement reductions and density bonusing will create no upfront costs or lost revenue onto a municipality.

Additionally, parking requirement reductions may work to support other transportation planning objectives, such as promoting alternative modes of transportation. These aspects may encourage local

municipalities to participate in the RHIP and provide these incentives, which are not under Regional control.

Parkland dedication fee waiver is recommended in the “Medium Density” “Incentive Package” to achieve a comparable IRR to the “Higher Density” scenario. Without the parkland dedication fee waiver, IRR is lower in the “Medium Density” scenario because the combination of a parking reduction and a density bonus has a lesser impact. Thus, the parkland dedication fee waiver is required to return a comparable IRR. The waiving of the parkland dedication fee would also create no upfront cost for a municipality. It is also inappropriate in high density areas (where parkland/open space is less abundant) and low density areas (where impacts on IRR are weaker).

## **2.8.2      *Alternative and Omitted Incentives/Tools***

### *Land Leasing, HST Waivers, and Federal/Provincial Tax Credits*

Land leasing was omitted from the “Incentive Packages” because it can only be applied to development proposals that occur on municipally owned land. To encourage widespread development of rental housing, all available developable lands are targeted. HST waivers and Federal/Provincial tax credits were omitted from “Incentive Packages” because they are outside of the control of York Region. Land leasing, HST waiving, and Federal/Provincial tax credits are recommended, however, to be used in place of other incentives if available. This is because they would not directly incur costs onto either the Regional or local municipalities (even providing a revenue source in the case of land leasing) and provide significant IRR increases.

### *Building Permit/Application Fee Waivers and Municipal Grants*

Building permit/application fee waivers and municipal grants were omitted from the “Incentive Packages”. For building permit/application fee waiving, they were omitted due to their minimal impact on IRR. As for grants, they were omitted because of the relatively moderate impact on IRR when considering the large costs to the issuing municipality.

### *Inclusionary Zoning*

Inclusionary zoning was not tested in this report. This is because inclusionary zoning is not an incentive. Inclusionary zoning is also currently not permitted in the context of York Region, and therefore cannot be implemented at this point in time. Inclusionary zoning is a tool that would allow for a municipality to encourage private market rental housing in a number of possible ways. These are:

1. Establish voluntary zoning designations. This would allow a developer to construct as permitted as-of-right, but be eligible to receive incentives as outlined in this report if certain criteria are met (providing rental units). This has been practiced by the City of Vancouver with the NC-1 zoning designation;
2. Require a developer to provide a specified criteria (rental units) if a zoning by-law amendment is required. Furthermore, once the rezoning has been completed and the rental units are guaranteed to be provided, the previously discussed incentives in this report could be granted to the developer. This structure has been discussed in regards to affordable housing by the Ontario Non-Profit Housing Organization (ONHPA) in their 2007 *Implementing Inclusionary Policy to Facilitate Affordable Housing Development in Ontario* report; and

3. Require residential developments in excess of a specified GFA to provide a certain number of rental units. Incentives would also be granted to offset the cost of the rental units. This structure has been discussed in regards to affordable housing by the ONHPA in their 2007 *Implementing Inclusionary Policy to Facilitate Affordable Housing Development in Ontario* report.

## 3.0.0 Rental Housing Office (RHO)

### 3.1.0 Overview

This section of the report provides a detailed explanation for the recommendation of creating the Rental Housing Office (RHO) in York Region. The RHO is the formation of a municipal administration unit implemented as a five year pilot project under the Office of the Chief Administrative Officer (CAO) allowing for shared ownership of the RHO within York Region. This two-member team could consist of seconded Regional employees from departments which deal with development and housing (such as Community Planning, Long Term Planning, Legal and Finance).

### 3.2.0 Method

After reviewing, researching, and interviewing municipal staff from over 30 municipalities, the municipalities that were the most applicable and accessible to York Region's context were selected. Some of these municipalities were also at a similar stage of creating an organizational structure and had a detailed process description. The following municipalities were the most influential in the formation of our recommended organizational structure:

- Affordable Housing Community Improvement Plan, Peterborough, Ontario
- Capital Regional District Housing Secretariat, British Columbia
- City of Calgary Financial Incentive Program, Alberta
- City of London Housing Development Corporation, Ontario
- City of Ottawa Affordable Housing Unit, Ontario
- Vancouver Affordable Housing Agency, British Columbia

These case studies were combined with interviews with:

- Private developers which focused on their preference of Regional support; and
- Consultation with York Region Staff (from HSPB, Community and Social Services as well as Long Range Planning) to form our final recommendation.

It should be noted that the recommended structure of the Rental Housing Office is one possibility, but there are many other potential organizational structures with different roles, responsibilities and functions that exist and could be an interesting avenue for York Region to further explore.

#### **Recommendations:**

1. That the RHO be established under the Office of the CAO;
2. That the RHO collaborate with and inform local municipalities about the rental housing crisis and what the municipality can do to bolster the incentives to be offered by the Region;
3. That the RHO create the policies to implement the incentives program (outlined in this report) as program(s), through the By-law amendments, a CIP or a combination of both; and
4. That once these program(s) have been approved by Regional Council, the RHO acts as a centralized information source for private developers and as a singular contact throughout the entire planning amendment and incentives application process.

### 3.3.0 Rationale

The RHO would create strategic partnerships, deliver programs to support market rental housing development, conduct research and monitor the housing situation, as well as act as a resource and leader for the local municipalities. The RHO could further assist in meeting the needs of York Region's market rental housing crisis.

The RHO should:

1. Have a clear Council approved vision and governance structure to ensure accountability, transparency, value for money, and alignment with Council's objectives outlined in the *Vision 2051* long-term Strategic Plan, *2011 to 2015 Strategic Plan* (and subsequent updated strategic plans), *York Region Official Plan* and *York Region 10-Year Housing Plan*. The Office would provide an annual report and update to Council and would report regularly to the Office of the CAO and Housing Steering Committee;
2. Be located within the Office of the CAO as it would not be owned by one part of York Region;
3. Establish a small, nimble team, with a focused mandate, specifically addressing market rental housing policies, implementation and monitoring;
4. Be a more modest financial option, requiring a reallocation of resources through seconding staff from within the Region rather than finding new resources (i.e. new operating budget costs and hiring new staff);
5. Be set up as a five-year term phased approach, aligning with the 10-year timeframe of the *York Region 10-Year Housing Plan*;
6. Build an external capacity for the delivery of programs and demonstrate the willingness to work with developers, not-for-profit organizations, local municipalities, surrounding regions and senior levels of government for the public good of increasing market rental housing options in the Region, and ensuring a complete and healthy community. In collaboration with these key groups, the RHO will help to instill trust and confidence;
7. Create a crucial link between internal departments by assisting the development of rental housing. Staff would facilitate and coordinate between developers, not-for-profit organizations, internal Regional departments, local municipalities, and senior levels of government ensuring each application is successful;
8. Demonstrate Regional leadership among its local municipalities and help guide a consistent process for market rental housing development; and
9. Respond directly to the preferences of the development community providing accurate and direct information about the RHIP offered by York Region (and local municipality if applicable). The RHO would provide the private developer with a centralized contact, as it is located within the Office of the CAO, which would expedite their incentive and planning amendment application. This would allow developers to add the qualifying RHIP into their pro formas and make them more likely to initiate a project.

### 3.4.0 Benefits of a Rental Housing Office

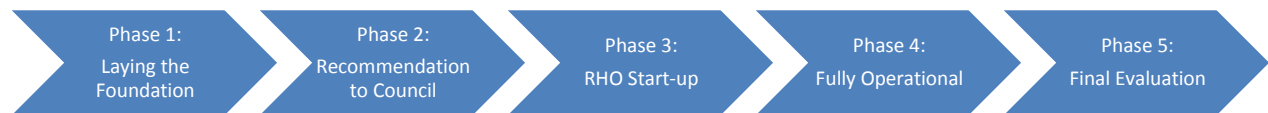
The creation of a dedicated RHO could have numerous benefits to the Region, local municipalities, and the development community. The main benefits resulting from the creation of the RHO could include:

- Ability to focus strategically on the private market rental housing gap that is currently not being met;

- Central point of contact within York Region for private market rental housing developers;
- Provide a streamlined and expedited development process for all private market rental housing development applications; and
- Ability to develop, manage and administer the RHIP in a coordinated and cohesive way, ensuring consistency and efficiency for all stakeholders.

### 3.5.0 The Proposed Process

The proposed process addresses the first five years of the RHO. The proposed process for creating and implementing the RHO is as follows:



**Figure 4: Proposed Process**

#### 3.5.1 *Laying the Foundation*

**Phase 1** would require an “Implementation Team” to begin laying the foundation required to develop the RHO. It is recommended that HSPB play the role of the “Implementation Team”, as their core purpose is to bring about positive changes within York Region through engaging and collaborating with community partners.

At this time, HSPB should collaborate and inform key partners and stakeholders of the proposed RHO and the RHIP. They should engage Regional departments, local municipalities, senior levels of government, community organizations, and the development community. The goal at this time is to inform all stakeholders of the current private market rental housing situation and to propose plans for the future. The “Implementation Team” would seek acceptance of and willingness to actively support and participate in the actions required to increase market rental housing in York Region.

HSPB in collaboration with the Housing Steering Committee and Departments of Long Range Planning and Community Planning would have the responsibility to develop a detailed Work Plan (a business plan for the first five years). Details required in establishing the RHO may include:

- Define project Work Plan and timeline details;
- Select and engage internal work team staff (i.e. second Regional staff);
- Determine roles, relations, and interactions between internal Regional departments;
- Create an organizational strategic plan and measurable targets;
- Determine operating and governance tools;
- Funding sources and costs to carry out the Work Plan; and
- Other initial Work Plan activities as appropriate.

#### 3.5.2 *Recommendation to Council*

**Phase 2** would focus on the start-up activities to develop the RHO. The start-up would require specific actions to occur by York Region including a recommendation to be put forward to Council for adoption.

This would start with a consultation between the HSPB, Housing Steering Committee, and Departments of Long Range Planning and Community Planning for feedback. These Departments are included since it is proposed that most of the seconded Regional Staff will come from these areas.

Lastly, the HSPB and Departments of Long Term Planning and Community Planning would bring the report before Council for the adoption to establish the RHO.

### 3.5.3 RHO Start-up

**Phase 3** would be the first year that the RHO is in operation. In the beginning, the RHO could consist of two staff members including a Program Manager and a Housing Planner. They would be two full-time staff, seconded from within the Region, as they would already be familiar with York Region's housing context and would have experience in the administration process (see *Governance* section for full role descriptions).

Daily Activities of the Rental Housing Office	
Tasks	Description
Continue to establish resources and project team	<ul style="list-style-type: none"> <li>Expand RHO as required</li> </ul>
Recommend RHIP to Council	<ul style="list-style-type: none"> <li>Write recommendations report for the RHIP</li> <li>Present to Council for approval/adoption</li> </ul>
Market and carry out the RHIP	<ul style="list-style-type: none"> <li>Market RHIP to the private and non-profit sectors</li> <li>Implement and carry out the program as described in the section on <i>Application Process</i>.</li> </ul>
Encourage Local Municipalities involvement in the Incentives Program	<ul style="list-style-type: none"> <li>Conduct a presentation series for local municipalities</li> <li>RHO would serve as a resource for local municipalities</li> </ul>
Report to Council	<ul style="list-style-type: none"> <li>Report annually to Regional Council</li> </ul>

**Table 23: Daily Activities of the RHO**

During this time the RHO would focus on daily activities, following the Work Plan (see **Table 23** above). The following actions would be undertaken:

- Continue to establish resources and project team (as above):
  - There is the potential during this time to expand the RHO, increasing staff and adding roles as required.
- Recommend the Rental Housing Incentives Program (RHIP) to Council:
  - The RHO would write and bring the RHIP report to Council for adoption. This report should include incentives that York Region can control, as well as the method and process for implementing and administering them. This could potentially occur through a Regional Corridors Community Improvement Plan (CIP) or amending individual by-laws or a combination of the two.
- Market and carry out the RHIP:

- Market the “Rental Housing Incentives Program” to the private and non-profit sectors, and carry out the program as described in the section on *Application Process*.
- Encourage local municipalities involvement in the RHIP:
  - Once the RHIP has been launched, conduct a presentation series for local municipalities about the supplementary programs they could implement to help make rental happen.
  - The RHO would serve as a resource for local municipalities that express interest in providing their own incentives to encourage rental housing including: training for local staff, monitoring support and providing help with the writing of a CIP or amending of By-laws to enable the programs.
- Annual Reporting to Council

### 3.5.4 Fully Operational

**Phase 4** would be the fully operational time between start-up of the RHO and final evaluation. During this Phase, the RHO would continue to work on the tasks outlined in Phase 3 and build upon them as their daily routine and tasks are refined over time. These tasks include:

- Preparation of all administrative tools, accountability rules and management practices:
  - The RHO would write the necessary policies for day-to-day function, such as administration and management practices, as well as adhere to the Region’s internal policies on administration.
  - The RHO would be available to meet and collaborate with all stakeholders and policy makers ensuring private market rental housing remains a priority.
- Continued Monitoring of Application Process:
  - Continued review of the policies and tools that are in place at the Regional and local levels to determine effectiveness and efficiency.
  - As the RHO receives more applications for the RHIP, they may need to adapt the application process (as outlined below) based on experience.
- Needs and Feasibility Analysis:
  - During the operational years, the RHO would conduct a needs and feasibility analysis to explore the idea and option of creating a Special Housing Body (Housing Development Corporation or Housing Authority).
  - This analysis would help determine if a Special Housing Body and a permanent Rental Housing Office should both exist or if it should be one or the other.

#### **What is a Special Housing Body?**

A Special Housing Body is either a Housing Development Corporation or a Housing Authority.

#### **Housing Development Corporation**

A Housing Development Corporation is an independent incorporated entity that works in partnership with the private and government sectors to expedite housing development strategies and sometimes provide alternative methods of operational funding.

#### **Housing Authority**

A City-controlled, but legally separate entity created to implement the City’s housing goals and policies.



### 3.5.5 Final Evaluation

**Phase 5** would evaluate both the RHO and RHIP that could be adopted through Council and implemented by the RHO. The final evaluation would occur at the five year mark. The RHO and RHIP would be examined and reviewed for success (based on goals, targets, and indicators outlined at inception). This stage would be critical for a pilot project. It allows programs, roles, and responsibilities to be assessed. This would be the time when the RHO's future is determined, and if the incentives offered in the RHIP program were successful throughout the duration of the program. This evaluation could lead to one of the following:

- Implementing a permanent RHO (with changes made as necessary); or
- Dissolving the RHO.

If after assessing the viability, it is decided that a permanent RHO would be implemented, there would be a number of tasks required to complete for the future implementation of the RHO:

- Establish a long term Work Plan (five to ten years);
- Refine incentives (if required);
- Refine implementation tools;
- Refine administration process;
- Further expand or develop staff structure;
- Create an organizational strategic plan and measurable targets for the future years; and
- Define long term organizational and resource needs and efficiencies.

If after assessing the viability, it is decided that the RHO should dissolve as it is not effective in administering incentives to increase rental housing development, and/or the RHO bears too much risk for the Region, then a series of actions would be required to close the office:

- Resources would be located back to original state;
- Seconded staff would return to their previous positions within the Region;
- Incentive Programs would be required to be dissolved (either through terminating a CIP or through individual by-law amendments); and
- Roles and responsibilities would dissolve. Depending on the circumstances some roles and responsibilities may carry over or merge with a different department.

## 3.6.0 Strategic Framework

### 3.6.1 Vision

The RHO's vision would be to increase the supply of rental market housing units in York Region in line with the Region's market rental housing targets.

### 3.6.2 Mission

The RHO would stimulate the supply of market rental units across its nine local municipalities by implementing and administering the Rental Housing Incentive Program to private market rental housing developers, and by fostering unique partnerships to leverage land and financial resources in York Region.

### 3.6.3 Mandate

The RHO would be part of York Region's municipal administration under the Office of the CAO. The RHO would guide the process of increasing the supply of market rental units, facilitate the expedited process of development applications for market rental housing, and administer a Rental Housing Incentive Program (RHIP) to developers building market rental housing units.

The RHO would help to accomplish the core housing strategies of the *Growth Plan for the Greater Golden Horseshoe* (2006), *Vision 2051, 2011 to 2015 Strategic Plan*, *York Region Official Plan* (2010), *York Region 10-Year Housing Plan*, and the *Draft Affordable Housing Implementation Guidelines* (2014). The key themes are listed below:

1. Cultivate safe, healthy, sustainable and complete communities through a diverse range of housing choices and supports to meet the diverse needs of residents and workers;
2. Focus on providing housing availability and affordability to meet the diverse needs of residents and workers;
3. Adapt to the changing needs of citizens through housing types, affordability, and density;
4. Promote housing density in areas (such as Regional centres and corridors) that reinforce transportation infrastructure and decrease environmental impacts;
5. Promote housing infrastructure that is in close proximity to meaningful work;
6. Preserve and retain existing rental housing stock; and
7. Develop a monitoring and tracking process of new private purpose-built rental units.

### 3.6.4 Key Objectives

These key objectives would assist the RHO in accomplishing their vision, mission and mandate;

1. Collaborate with and support local municipalities in the role they can play in completing the RHIP and making rental happen in York Region;
2. Develop, manage, and administer the RHIP that would support the development of private market rental housing in collaboration with local municipalities;
3. Facilitate the development of private market rental housing throughout the planning and building process by providing expedited processing and coordination;
4. Research, review, and write policies that initially support the creation or market rental housing and could later look at the retention, and preservation of market rental housing; and
5. Monitor and evaluate the effectiveness of the incentive programs, the Rental Housing Office itself as well as the housing situation in York Region.

### 3.6.5 Indicators and Targets

The success of the RHO could be informed by the indicator to create market rental units. Based on past research of other feasible organizational structure housing targets, such as the Vancouver Affordable Housing Agency and the City of Calgary's Financial Incentive Pilot Program, it would be recommended that York Region set a market rental housing target of:

- 200 market rental units every year after its initial phase of being fully operational until the end of the lifespan of the RHO pilot project in five years.

At the start of the RHO and RHIP, the housing targets should be reasonable and achievable. As the RHO becomes more stable it should reassess the targets annually, aligning them with the housing targets

outlined in *York Region's Official Plan (OP)*. The OP highlights that York Region's projected rental housing need is great.

The demand for market rental housing was calculated between the years of 2015-2031 based on two scenarios using the housing targets in the OP (as shown in **Table 24** below). This information is included to purely emphasize the need for market rental housing in York Region and to compare the Region's proportion of rental housing with the Province of Ontario.

1. **Status Quo Target Scenario: In 2011**, the proportion of rental housing to total households in York Region was 11.5%.
  - 16,675 units should be achieved between 2015-2031 (based on the 11.5% proportion of market rental units to total household units in York Region).
  - 1,150 private market rental units should be created every year for the next six years (between 2015 and 2021).
2. **Province of Ontario Target Scenario: In 2011**, the proportion of rental housing to total households in the Province of Ontario is 28.4%.
  - 41,180 units should be achieved between 2015-2031 (based on using 28.4% proportion of market rental units to total household units).
  - 2,840 private market rental units should be created every year for the next six years (between 2015 and 2021).

<b>Proposed Number of Market Rental Housing Targets, 2015-2031</b>				
Annual Housing Targets (according to OP*)	Proportion of Rental Units to Overall Number of Households			
	Status Quo (11.5%)	Annual Target	Provincial Average (28.4%)	Annual Target
2015: 10,000 units**	1,150 <i>(10,000 x 0.115)</i>	1,150 <i>[(10,000 x 0.115)/1year]</i>	2,840 <i>(10,000 x 0.284)</i>	2,840 <i>[(10,000 x 0.284)/1year]</i>
2016-2021: 50,000 units	5,750	1,150	14,200	2,840
2021-2026: 45,000 units	5,175	1,035	12,780	2,556
2026-2031: 40,000 units	4,600	920	11,360	2,272
<b>Total number of Rental Housing Units (2015-2031): 145,000</b>	<b>16,675</b>		<b>41,180</b>	

**Table 24: Proposed Number of Market Rental Housing Targets, 2015-2031**

\*Annual Housing Targets retrieved from *York Region's Official Plan (Section 3.5)*

\*\* See the annual housing targets in 2015 for an example of calculations

If the RHO becomes permanent after its five years, it is recommended that the RHO strive for housing targets that increase incrementally to achieve the Region's status quo demand of 16,675 market rental units between 2015-2031 at minimum. The housing targets should be stated in the RHO Work Plan. In order to achieve the success of any feasible housing target, it should start small and increase with resources and capacity available within the RHO.

### **3.6.6**      *Monitoring*

The RHO would keep track of total market rental units being built and market rental units that use Regional incentives of expedited processing, Tax Increment Equivalent Grants (TIEGs), development charge deferrals, density bonusing, parking requirement reduction, and parkland dedication fee waivers. The RHO will also track the total cost of administrative time to process these applications of the RHIP. This information will be reported in the annual report.

The RHO would be responsible for receiving feedback using surveys or other tools from applicants to improve the development application process. This information would be reported in the annual report.

Annual reports would be presented to Council, reporting on goals, targets, successes, challenges, feedback from applicants, and the overall operation of the RHO. Council can ask questions, comment, and make suggestions and recommendations to the RHO and staff to improve services or make changes to increase operational efficiencies where needed.

### **3.6.7**      *Rental Housing Office Structure*

#### *Roles and Responsibilities*

The RHO would not manage or operate any rental housing units. The role of the RHO is to stimulate the creation of new private purpose-built rental housing stock. The RHO would work in partnership with Housing York Inc. and not-for-profit organizations to manage and operate the rental market housing units. **Table 25** outlines the roles and responsibilities of the RHO, HSPB, CAO and York Regional Council.

Roles and Responsibilities of Rental Housing Office					
		RHO	HSPB	CAO	York Region Council
Governance	Program Manager			<ul style="list-style-type: none"> <li>Appointed by CAO</li> </ul>	
	The proposed process of the pilot project		<ul style="list-style-type: none"> <li>Created by HSPB</li> </ul>	<ul style="list-style-type: none"> <li>Supported by CAO</li> </ul>	<ul style="list-style-type: none"> <li>Approved by Council</li> </ul>
	Annual report	<ul style="list-style-type: none"> <li>Created by RHO and presented to Council</li> </ul>		<ul style="list-style-type: none"> <li>Supported by CAO</li> </ul>	<ul style="list-style-type: none"> <li>Accepted by Council</li> </ul>
Finance	Capital and Operating Budgets	<ul style="list-style-type: none"> <li>Created by RHO</li> </ul>		<ul style="list-style-type: none"> <li>Reviewed by CAO</li> </ul>	<ul style="list-style-type: none"> <li>Approved by Council</li> </ul>
	Other funding	<ul style="list-style-type: none"> <li>Leveraged funding from partnerships by RHO</li> </ul>			
	Financial Statements	<ul style="list-style-type: none"> <li>Created by RHO</li> </ul>		<ul style="list-style-type: none"> <li>Reviewed by the CAO</li> </ul>	<ul style="list-style-type: none"> <li>Included with all of the Region's financial statements</li> </ul>
Administration	Shared Services (Legal, Finance, HR, IT)	<ul style="list-style-type: none"> <li>Shared with the Region</li> </ul>			<ul style="list-style-type: none"> <li>Approved by Council</li> </ul>
	Staffing	<ul style="list-style-type: none"> <li>Seconded employees from the Region</li> <li>Approved by Program Manager</li> </ul>		<ul style="list-style-type: none"> <li>Approved allocation of staff</li> <li>Approved reallocation or hiring of future staff as necessary</li> </ul>	

*Source: Table framework adapted from City of Vancouver, 2014, Creation of Housing Authority, p. 7; City of London, 2014, A proposal to establish a Housing Development Corporation, London (HDC), p. 3.*

**Table 25: Roles and Responsibilities of Rental Housing Office**

### Governance

The municipal administration unit, called the RHO under the CAO, would include two full-time staff in its first year of operation (see **Figure 5**). Staff would be seconded from within York Region because they would be familiar with York Region's housing context and would have expertise in the Regional administration processes.



**Figure 5: Organizational Structure of the CAO in York Region including the proposed RHO**

### *Program Manager*

- The Program Manager would oversee the RHO functions.
- The Program Manager would be well-versed in housing developments and incentives implementation.
- The Program Manager could come from Long Range Planning under the CAO providing a firm backbone to the RHO.
- The Program Manager's first and most important responsibility in the beginning of the RHO would be to inform and support local municipalities to create their own context specific package of incentives to complement the Region's.
- The Program Manager would focus on developing and nurturing community partnerships with senior and local governments, not-for-profit organizations, and private developers by transferring and sharing knowledge of housing procedures and leveraging resources, which would help to assist the creation of market rental housing.
- The Program Manager would be responsible for having regular communication with the CAO about market rental development projects and financial budgeting of the RHO.
- The Program Manager would be responsible for having regular communication with the Housing Steering Committee. Monthly (possibly bi-weekly at the beginning) meetings are recommended to update all parties with market rental development projects and on-going tasks.

### *Housing Planner*

- The Housing Planner would be an urban planner with a development background and is well-versed in all incentive programs available from both the Region and local municipalities (not limited to rental programs).
- The Housing Planner would be responsible to attend monthly pre-consultation meetings (see *Application Process* section), assist private developers throughout the incentives and planning amendment application process, as well as address any other issues that they may encounter when planning and building a new rental project.
- During a development project the Housing Planner would work with the local municipality Planner and Regional Planner who is in charge of the specific file (if planning amendments are required) in order to keep track of the process, and work with each of those positions to draft a

combined Report to Regional or local Council (including incentives and planning amendment recommendations).

- The Housing Planner would monitor housing and the success of achieving targets within the RHO and York Region.
- The Housing Planner would research other innovative housing programs and present this information to the team.
- The Housing Planner would help draft new by-laws or a CIP to create the “Rental Housing Incentives Program”.
- This staff member could come from Community Planning in the Transportation and Community Planning Department.

### *Advisors*

In addition to the staffs in the RHO, a financial and legal advisor from their respective departments would consult with the RHO in an advisory capacity.

- Finance - Comes from the Finance Department
- Lawyer - Comes from Legal Services (under CAO)

### *Shared Services*

These internal departments within York Region would extend their services to the RHO.

- General Finance;
- General Legal;
- Information Technology (IT); and
- Human Resources (HR).

### **3.6.8**     *Application Process*

The following incentive application process not only provides a framework for how the expedited processing may be employed, but also allows for safeguards for the municipality including:

- 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 will be registered on title (ensuring that units remain as private market rental for a certain number of years)

In order to implement the recommended “Incentive Packages”, **Table 26** displays the Proposed Application Process. A summary of the Application Process can be found in the Rental Housing Incentives Program (RHIP) Brochure sample (see **Appendix 3**).

Proposed Application Process	
Stage	Description
1. Initial Contact	<ul style="list-style-type: none"> <li>Private Developer approaches RHO for information about RHIP</li> </ul>
1. Pre-Consultation	<ul style="list-style-type: none"> <li>RHO meets with Regional and local Planners to discuss the incentive eligibility of potential projects.</li> <li>This information is passed to the developer, along with an incentives application (Regional and local if available) and instructions for submission.</li> </ul>
2. Application Submission	<ul style="list-style-type: none"> <li>Private Developer submits Regional (and local if available) application to the Housing Planner, along with any planning amendment applications.</li> <li>Housing Planner reviews the application and creates an agreement to remain as rental (with a pre-determined period of time on title), which is signed by the private developer.</li> <li>Housing Planner circulates the planning amendment applications to the necessary Departments at the Regional and local Municipality.</li> <li>At this stage, the expedited process from RHIP would begin. Any amendments required as well as the issuing of a building permit would be prioritized by Regional and/or local Planning.</li> </ul>
3. Report to Council	<ul style="list-style-type: none"> <li>Housing Planner works with the Regional Planner to prepare a recommendation report to Regional Council.</li> <li>Housing Planner provides support to the local Planner in preparing a recommendation report to local Council.</li> </ul>
5. Construction	<ul style="list-style-type: none"> <li>Development construction begins.</li> </ul>
6. Completion	<ul style="list-style-type: none"> <li>Project is completed (sufficient proof is provided to the municipality) and the private developer is awarded their grant(s).</li> </ul>
7. Operation	<ul style="list-style-type: none"> <li>Development is fully operational.</li> </ul>

**Table 26: Proposed Application Process**

### *1. Initial Contact*

- Developers would contact the RHO and receive information and initial feedback on their proposals, including incentives from the RHIP that they could be eligible for guidance on local programs if they exist.

### *2. Pre-consultation meeting*

- These meetings would take place bimonthly or monthly, in order to discuss any projects that may qualify for the incentives program.



- The following people would be present: RHO Housing Planner, applicant, Regional Planner and local Planner(s).
- The group would work together to discuss each project and determine which incentives are available based on its location (from the Region and the local municipality if applicable).
- The RHO would give the developer the necessary application forms and provide direction on how to proceed with next steps.

### 3. *Application Submission*

- Private Developer would submit a complete application to the RHO, along with any other planning applications (Official Plan Amendment, Rezoning, minor variances, etc.).
- The Housing Planner would begin three tasks simultaneously:
  1. Review the application for eligibility for RHIP and work with a local municipality contact to determine eligibility for local programs (if applicable);
  2. Depending on other types of planning applications, circulate the application to the necessary departments at the local and Regional levels; and
  3. Create the agreement to remain as rental (with advice from the Legal and Financial Advisors). This “Agreement to remain as rental” would be registered on title and the landowner would be required to maintain these units as rental for a pre-determined period of time. If the project qualified for a TIEG, the Housing Planner would work with the Tax Collection Department on how to track the project.

### 4. *Report to Council*

- Depending on the type(s) of planning amendment(s) required by an application and if the project qualifies for local incentive programs (if available), the following actions would occur at Regional and local Council.
  - Regional Council: The RHO would draft a report to Regional Council recommending that the project be granted the incentives as outlined in the grant agreement. If there are any planning amendment applications subject to Regional approval, the RHO will work with the Regional Planner to create one recommendation report; and
  - Local Council (if programs exist): The RHO would support local Planners in drafting a report to local Council recommending that the project be granted incentives as outlined in their own grant agreement, and any necessary planning amendments be approved.

### 5. *Construction*

- Development construction begins.

### 6. *Completion*

- After all approvals have been received from both local and Regional Council, the Building Permit is issued.
- In order to receive the grant(s), the project would provide proof of completion through potentially the following:
  - Photographic evidence that the completed project is satisfactory to the Region;
  - An engineer’s report that the project is complete; and

- Any other documentation proving the completion of the project (as dictated by the Region).
- Grant(s) would be issued to the Private Developer.
- If the project qualified for a TIEG, the grant would be assessed annually.

## 7. *Operation*

- Development is fully operational.

## 4.0.0 Future Considerations

The next steps of creating the RHIP and RHO would be to review this report and decide internally if it is an acceptable process for York Region. The Region may wish to amend any details in this Report and carry out the process as they see fit.

Should York Region accept the Group of Seven Consulting Report, the initial steps would be:

1. To examine the proposed scenarios for the RHIP, and
2. To 'Lay the Foundation' of the RHO (see **Phase 1** of the "Proposed Process").

The formation of the RHIP and RHO could help stimulate the creation of private market rental units in the housing market. In turn, this initiative could provide a place to call home for many newcomers, families, seniors and young professionals in York Region. Furthermore, this could allow the Region to maintain a competitive economy, decrease levels of traffic congestion and air pollution, and build more vibrant, complete and healthy communities. Below are future considerations that York Region could include in the creation of the RHIP and RHO that were beyond the scope of this project.

### 4.1.0 Rental Housing Incentives Program

#### 4.1.1 Further Examination of Additional Analysis

It would be further recommended that York Region consider additional feasibility analysis of each proposed incentive for each individual local municipality. It is likely that certain incentives would not be financially feasible for all local municipalities, which indicates that further analysis would be required to assess which incentives would be most effective as part of the RHIP.

#### 4.1.2 Evaluation of Assumptions

The assumptions in this Report were made by considering available data and the prevailing costs for both construction and operation of a building. However, more accurate and context specific data could be applied to construct more precise "base cases".

The three "base cases" generated were formed from three different density scenarios with varying assumptions within the Region. For this reason, additional context-specific attention would be required to incorporate more accurate assumptions. The additional analysis would be similar to the "base cases" completed in this Report, but with modified variables that could include more specific information for each municipality.

In addition to this, possible modified variables could include, but are not limited to:

- Mixed tenure buildings (only 100% rental were assumed);
- Alternative rental rates and their impacts on IRR; and
- Land values for specific site or location.

#### 4.1.3 Additional Considerations

This Report focused on the analysis of incentives for rental development, however there are other factors not included in the Report that could be useful to consider such as:

- After tax IRR calculations, indicating an exact return on investment;
- Extensive processing fee calculations; and
- Expedited processing costs for municipalities and region.

Through additional feasibility analysis, the Region could gain further insight into the most applicable incentives for each local municipality to attract more rental development..

## 4.2.0 Rental Housing Office

In order to further support the Make Rental Happen project, the following “Future Considerations” are suggested below, as they could be instrumental in creating the RHO.

### 4.2.1 Policy Implementation

In order to implement the RHIP as recommended by this Report, a policy would be required to turn the incentives into legal programs operated by the Regional and local municipalities. This could be done through a CIP, individual By-law amendments or a combination of both. It should be noted that upper-tier municipalities have certain limits when creating a CIP. The full details of the process to enact a CIP and other legal details are included in **Appendix 2**.

Below is a chart explaining how the five incentives recommended by this report might be implemented through both methods:

Incentive	Through a CIP	Through By-law Amendments
Development Charge Deferral (York Region)	<ul style="list-style-type: none"> <li>• Could be offered through a CIP. Section 27 of the <i>Development Charges Act</i> allows a municipality to enter into an agreement with a developer who is to pay a development charge ‘before or after it would be otherwise payable’ without having to amend the Development Charges By-law of the municipality.</li> <li>• For example, York Region and the Town of Newmarket were able to offer Rose Corp the 36 month deferral for 212 David Drive.</li> <li>• Since applications for CIP are approved by Council on a site-by-site basis, offering a development charge deferral could be included in their application and the developer would be required to sign an agreement with the municipality (which is required to receive most CIP grants).</li> </ul>	<ul style="list-style-type: none"> <li>• York Region has two options:               <ol style="list-style-type: none"> <li>1) Amend the Development Charges By-law to state that all rental projects shall receive a development charge deferral of 36 months or</li> <li>2) Review each rental project on a case-by-case basis, under Sec. 27 of the <i>Development Charges Act</i>, and require the private developer to sign an agreement with the municipality.</li> </ol> </li> <li>• With the first option, Council does not reserve the right to refuse some applications of the grant, as it would be allowed as of right. The only way to prevent the use of it after it is implemented is to amend the By-law for a second time.</li> </ul>
Parkland Dedication (cash-in-lieu) Waiver (Local Municipality)	<ul style="list-style-type: none"> <li>• Could be offered through a CIP as a grant.</li> <li>• The cash-in-lieu payment could be deferred until after the rental units have been built, and then the municipality would provide a grant equal to the cash-in-lieu payment amount.</li> </ul>	<ul style="list-style-type: none"> <li>• Parkland dedication requirements are currently permitted and regulated through Sections 41 and 51.1 of the <i>Planning Act</i>.</li> <li>• Parkland dedication reduction or waiving would require a local municipal amendment to its parkland dedication by-law.</li> </ul>

<p>Parking Reduction (Local Municipality)</p>	<ul style="list-style-type: none"> <li>• Could be offered through a CIP as a grant.</li> <li>• In some municipalities such as Collingwood, Ontario, there is an option to provide a cash-in-lieu payment to the municipality to pay for a communal parking garage or on street parking.</li> <li>• A local municipality in York Region could offer the same thing.</li> <li>• The cash-in-lieu payment would then be deferred until after the rental units have been built, and then the municipality would provide a grant equal to the cash-in-lieu payment amount.</li> </ul>	<ul style="list-style-type: none"> <li>• Parking requirement standards are currently permitted through Section 14 of the <i>Planning Act</i>.</li> <li>• Alterations, including reductions or waiving, to parking requirements would require a lower-tier municipal amendment to its Zoning By-law.</li> </ul>
<p>Density Bonusing (Local Municipality)</p>	<ul style="list-style-type: none"> <li>• As-of-right density bonusing could be done through an amendment to the <i>Zoning By-law</i> and included in a CIP. However, most municipalities are adverse to rezoning, as it could allow for more density to be built than infrastructure is capable of supporting.</li> </ul>	<ul style="list-style-type: none"> <li>• Density bonusing is currently permitted through Section 37 of the <i>Planning Act</i>.</li> <li>• Density bonusing would require a lower-tier municipality to define Section 37 Agreements in its <i>Official Plan</i> if it has not already done so.</li> <li>• Additionally, density bonusing would require ongoing case-by-case negotiated agreements between a municipality and a developer to avoid being constituted as an illegal tax.</li> </ul>
<p>TIEG (York Region)</p>	<ul style="list-style-type: none"> <li>• Can only be implemented through a CIP.</li> </ul>	<ul style="list-style-type: none"> <li>• Cannot be implemented through a By-law amendment.</li> </ul>
<p>Overall Assessment</p>	<ul style="list-style-type: none"> <li>• Under a CIP, a Council reserves the right to approve or refuse an incentive application based on available funding. This provides more control for the municipality and the ability to stop the program(s) at any time.</li> <li>• In addition, if the municipality offers deferrals and then grants after projects are complete, it ensures that the 'public good' (in this case rental housing) does in fact get built and protects the municipality against a company who might go bankrupt or leave.</li> <li>• In addition, under the <i>Planning Act</i> a CIP requires public consultation and extensive analysis of the issue (which York Region has already done most of the work for through HSPB initiatives)</li> <li>• CIP is a process that many municipalities have done before and there are a number of examples available</li> <li>• If a Regional and local municipality both provide a CIP, Section 28.7.2 allows for the Region to provide grants and loans to the local municipality for their incentive programs.</li> </ul>	<ul style="list-style-type: none"> <li>• The amendment of individual By-laws will require various reports to Council and passing of each individual By-law (unless it is done as one report).</li> <li>• If By-laws are amended, the private developer knows for certain that they will be able to receive the incentives, unless the By-law is re-amended at the last minute (an unlikely occurrence).</li> </ul>

Table 27: Policy Implementation

- The Regional Municipality of York is an upper-tier municipality, which only legislatively permits the following rationales for a CIP to encourage market rental housing:
  1. Create a Region-wide CIP for affordable housing; or
  2. Establish a CIP area along Regional Corridors and provide incentive programs for all private market rental.
- While the Region is unable to provide a Region-wide program under a CIP for rental, lower-tier municipalities have the ability and as the Proposed Process for the RHO states, this should be explored and supported by the RHO.
- Whichever method York Region or the local municipalities choose to offer incentives, the coordination between the two parties shall be supported by the RHO.

#### **CIP vs. By-law:**

A CIP is not the only vehicle to offer property tax grants (through the use of a Tax Increment Equivalent Grant), it is also a way to package all other selected incentives into one cohesive package that responds to a community need.

The alternative involves amending individual by-laws, which requires the RHO to produce several reports and have several votes at Regional Council; as opposed to one vote for the CIP (this process might also not involve extensive public consultation). In addition, if a by-law is amended, it must be amended a second time to stop the program, whereas Council reserves the right to cancel a CIP at any time or refuse applications based on available funding.

In addition, if the Region adopts a CIP, then a local municipality could also adopt a CIP with incentives. A property owner could apply for both Regional and local incentives. Not only this, but having a Regional and Local CIP allows for the upper-tier municipality to give grants to lower-tier municipalities to pay for the incentives they are offering. Having a Regional CIP that complements a local municipality's CIP exists in the Regional Municipality of Waterloo with their "Re-urbanization CIP."

#### **4.2.1 Rental Housing Targets**

Group of Seven Consulting recommended that the RHO set a goal of creating 200 market rental housing units. This is a suggestion that would require further study. However, for any housing target to be successful, York Region should have a method of setting achievable targets. This would depend on political and community support available and ongoing discussions with local municipalities. Local municipalities would be required to set their own market rental housing targets.

#### **4.2.2 Partnerships**

These are groups, people or organizations that could provide a critical link to leverage financial resources and expertise.

- Partnering with private companies, not-for-profit organizations, senior governments, and local municipalities to share risk, rewards and resources in creating and developing market rental housing for their staff
  - There is potential to partner with York Region's top employers which include: Magna International, IBM (International Business Machines Corporation) Canada, American

Express, Canada's Wonderland and AMD (Advanced Micro Devices Company) Technologies.

- Partnering with communities to continue to build knowledge and awareness of the need for market rental housing.
- Partnering with academic institutions such as Ryerson University, York University and others for research and evaluation of RHO.
- Partnering with York Region District and York Catholic Region School Boards for using school surplus sites for market rental housing. This could be explored through the municipal tool of land leasing.

#### 4.2.3 *Assets and Financing*

An essential component of the development of the RHO is the incurred costs to lay the foundation of this project and the operating and capital budget that would be required to operate the RHO. Developing the Capital and Operational Budgets should be explored.

- Capital Budget: This budget could consist of Regional capital funding and partnership financial contributions.
- Operating Budget: The annual budget of the RHO should include staff salaries and expenses, general expenses, total operating costs and incremental funding costs as the RHO grows.

#### 4.2.4 *Rental Housing Development Charge Fund*

A Rental Housing Development Charge Fund is based on the idea that residential growth of the ownership variety should contribute to needs within the housing spectrum. This allows the municipality to garner funds to help provide incentives for rental and then, affordable housing. York Region could institute a similar program allowing any rental projects to be exempt from this development charge. This would be a way to maintain the flow of development charges to the municipality and have the private developers contribute to a community good.

##### **The City of Peterborough:**

The City of Peterborough amended its Development Charges (DCs) By-law to have a portion of all DCs paid to the municipality be put into a fund to help affordable housing projects pay their own DCs. There was no pushback from the development community, as the total cost of DCs did not change.

#### 4.2.5 *Rental Housing Trust Fund*

This is a more self-sustaining funding model that collects funding contributions from municipalities and developers as an alternative financing method, rather than from senior levels of government. The implementation of this model requires discussions with municipalities and developers. York Region could pursue a similar program in a supporting capacity under its *Reserve and Reserve Fund Policy*. This could demonstrate the Region's leadership in market rental housing.

**The Capital Regional District (CRD):**

The Capital Regional District (CRD) implemented the Regional Housing Trust Fund, which encouraged 12 out of 13 municipalities to contribute \$900,000 towards an affordable housing trust fund in 2013. Grants of \$5,000-\$15,000 per unit were administered from the Regional Housing Trust Fund. The CRD championed the housing cause by increasing their funding partners and showed strong Regional support for housing projects.

**The City of London Housing Development Corporation:**

The City of London Housing Development Corporation proposed the Resilient Communities Fund (RCF) in their organizational structure model. The RCF would collect contributions from new investors and attract them to invest in the real estate market.

#### **4.2.6** *Exploring Retention and Preservation Policies*

To explore retention and preservation policies, which protect private market rental housing, keep purpose-built rental units on the market, and prevent conversion of market rental units into condos, could further researched. The Rental Housing Office could play a role in drafting these policies and implementing them.



# Appendices

## Appendix 1 – Terms of Reference

Ryerson University - School of Urban and Regional Planning  
Advanced Planning Studio

August 25, 2014

Project Terms of Reference

<b>Project Title:</b>	Encouraging More Housing Options in York Region
<b>Project Client:</b>	Human Services Planning Board of York Region
<b>Client Contacts:</b>	Peter Marohnic, Senior Planner, Regional Municipality of York, Staff Secretariat to Human Services Planning Board of York Region ph: (905) 830-4444x72044 email: <a href="mailto:peter.marohnic@york.ca">peter.marohnic@york.ca</a>  Maria Leonis, Senior Policy Analyst, Community and Health Services Department, Regional Municipality of York ph: (905) 830-4444x72123 email: <a href="mailto:maria.leonis@york.ca">maria.leonis@york.ca</a>
<b>Project Mentor:</b>	To be determined by Ryerson University

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### Background

#### A Snapshot of York Region

York Region is made up of nine local municipalities where people live, work and play. The Region has a culturally diverse population of over one million people. The Region is 1,776 square kilometres (686 square miles) stretching from Steeles Avenue in the south to Lake Simcoe and the Holland Marsh in the north.

York Region's diverse communities, emerging urban centres, competitive industries, attractive natural environment, and strategic location in the Greater Toronto and Hamilton Area continue to attract dynamic growth. By 2031, it is anticipated that York Region will reach 1.5 million residents, 780,000 jobs, and 510,000 households.

#### Who is the Human Services Planning Board of York Region?

The Human Services Planning Board of York Region (Board) is a multi-sector collaborative of leaders from human service organizations, community agencies, corporations, and government. Members have come together to work beyond the boundaries of their institutions to advance the Board's mandate of enhancing the effectiveness and efficiency of human services through capacity building and collaborative advocacy. Each of the Board members has been appointed by Regional Council for an inaugural four-year term that concludes at the end of 2014. A second four-year term will commence in 2015.

#### What is the Board's work?

In 2011, the Board released the *Making Ends Meet* (MEM) in York Region Discussion Paper, which uses a results-based accountability model to define the Board's:

- target population – low and moderate income residents in York Region (up to \$70K year)
- community results – affordable housing and economic self-sufficiency
- indicator areas – used to measure the community's progress in advancing the community results

1

In 2012 Regional Council approved the Board's *Year in Review 2011* and the *Making Ends Meet Baseline Measures: Turn the Curve Report*. The *Year in Review* outlines a community model for change to guide decisions and focus community efforts on the community results. It also includes Board member action plans as the beginning of the Board's outreach efforts to build awareness, facilitate new partnerships, and work towards innovative and collaborative solutions. The Baseline Measures report identifies indicators to measure the community's progress in the two result areas.

#### What is Make Rental Happen?

The Board identified the shortage of affordable housing options, specifically rental housing, as one of the most important challenges for many residents trying to make ends meet. In 2013, the Board developed the *Make Rental Happen Collaborative Advocacy Plan* to encourage the private sector to reengage in building private market rental housing in York Region. Keeping with the plan, the Board is using its influence to bring key stakeholders to the table, facilitate discussions, and identify a common vision for where change is needed. The Board is engaging those groups capable of implementing change, including all levels of government, the building industry, and corporate leaders. The plan has three primary deliverables:

1. Raising awareness
2. A collective statement of commitment
3. Developing strategic alliances

The Board has started taking practical steps to implement the plan by:

- Issuing a social media campaign to create awareness of the rental housing challenge.
- Elevating the conversation to focus on solutions by hosting a global post-secondary student rental housing ideas challenge.
- Hosting a broad rental housing symposium with stakeholders from all sectors.
- Continuing dialogue through targeted breakfast discussions, such as Make Rental Happen for Seniors.
- Embarking on consultations with all levels of government, social service agencies, the building industry, and corporate leaders to identify opportunities and barriers where advocacy could be used to create the conditions to develop private market rental housing.

Growing awareness of the need for rental housing is driving creative solutions, including a pilot project partnership between the Region, Town of Newmarket, and a developer for the construction of a multi-unit rental development project. This project resulted in a set of incentive principles approved by Regional Council, including conditional deferral of development charges for 36 months. HSPB will be monitoring the progress of this project to determine the success factors which can be replicated in other communities in York Region.

#### What is the York Region Housing Reality?

House prices have increased an average of 87 per cent in York Region over the past decade while hourly wages have only risen 26 per cent. Many people are being forced to live beyond their means, move outside the region, or spend significant time commuting. A key reason for the lack of housing affordability in York Region is a very limited supply of rental housing. York Region's housing market has the lowest percentage of rental housing in the GTA. Essentially no new private rental housing has been built in the last decade, which means little to no choice for those who cannot afford to buy a home. This includes new graduates, young families, newcomers and seniors. The impacts of this are wide ranging with increased gridlock, lack of opportunity for young, professional workers, inability for residents to

afford basic needs and difficulty attracting new business. See Appendix 1 for more detailed description of the York Region housing story.

Where can you access more background information?

The following York Region and Board documents can be reviewed for more background information:

- HSPB Make Rental Happen: Creating the Conditions to Build Private-Market Rental Housing
- HSPB-YR Making Ends Meet Discussion Paper
- HSPB-YR Baseline Measures
- Housing Matters: A Review of the Housing Market in York Region
- Taking Stock: An Overview of the Housing System in York Region
- York Region Official Plan
- York Region Centres and Corridors
- New Communities Guidelines
- The Board’s webpage [www.york.ca/hspb](http://www.york.ca/hspb) and the Make Rental Happen webpage [www.york.ca/makerentalhappen](http://www.york.ca/makerentalhappen)
- Regional Municipality of York Committee of the Whole report titled “Human Services Planning Board of York Region Year in Review 2013”, dated May 1, 2014.
- Regional Municipal of York Committee of the Whole Report titled “Human Services Planning Board of York Region: Collaborative Advocacy – Creating the Conditions to Increase the Supply of Private Market Rental Housing Options,” dated November 7, 2013
- Regional Municipality of York Committee of the Whole Report titled “Private Market Rental Development Charges Deferral Site Specific Pilot Project in the Town of Newmarket,” dated November 21, 2013.

**Studio Objectives**

This Planning Studio encourages students to rethink the York Region housing challenge, explore new ideas, and consider innovative solutions. This project has two phases:

1. Identify incentives needed to make building affordable housing to own or rent achievable for the private sector in York Region. Research in this area should include answers to the following:
  - a. What incentives can be provided by regional and local governments to encourage the construction of affordable ownership and rental developments, including a variety of housing types and sizes?
  - b. What incentives are most effective?
  - c. What amounts of incentives are needed to make the business case feasible for the private sector? (i.e. what are the metrics for a variety of housing types).
  - d. Who else could provide incentives?
  
2. What organizational capacity is needed within York Region to effectively implement an affordable housing incentives program?
  - a. What organization structure/capacity exists in Canadian regional or local municipalities that are successfully encouraging private sector development of affordable housing? (i.e. City of Vancouver or City of Toronto affordable housing offices)
  - b. What makes this organization structure/capacity successful?
  - c. What global models exist?

- d. What is the jurisdiction of affordable housing offices or units in other regional or local government organizations? (i.e. what are they responsible for and how effective are they?)
- e. What is needed for York Region to create similar organizational capacity? (i.e. what steps and resources are needed).
- f. What is the impact of these kinds of housing supports?
- g. What partnerships are essential to success?
- h. What are examples of innovative housing developments that wouldn't have been built without these organizational capacities?
- i. What are the barriers and obstacles to creating this organizational structure/capacity?

**Deliverables:**

1. A report grounding answers to the above questions in sound research, including recommendations and next steps.
2. A tool-kit that identifies:
  - a. All incentives offered by local and regional municipalities including pros and cons
  - b. The most effective package of incentives
  - c. Examples of business cases for a variety of ownership and rental development types that provide detailed metrics and make the connection between incentives and financial feasibility for the private sector
  - d. Organizational capacity needed within York Region to implement an incentives program
  - e. Steps that need to be taken by York Region to create this organizational capacity
  - f. What are the conditions for success?
3. Presentation of report and tool-kit to:
  - a. York Region Housing Strategies Steering Committee
  - b. Human Services Planning Board of York Region members

## Appendix 2 – Community Improvement Plan (CIP)

A Community Improvement Plan (CIP) is a planning tool allowing a municipality to direct funds and implement policy initiatives toward a specifically defined project area, after a thorough and complete study of community needs. Section 28 of the *Planning Act, 1990* permits municipalities to designate CIP areas and create CIPs that adhere to the definition of ‘community improvement’ under Section 28. Grants and loans may be provided for the following: environmental site assessment, environmental remediation, development, redevelopment as well as construction and reconstruction of lands and buildings for the rehabilitation process (Sec. 28 (7.1)).

Under the *Municipal Act, 2001*, municipalities are prohibited from providing bonusing or grants, unless it is through Section 106(3), which allows the aforementioned only if it is done using Sec. 28(6), (7) or (7.2) of the *Planning Act* (i.e. through Community Improvement Planning). This is an especially important clause as it forces municipalities to undergo a rigorous study process of their CIP area, conduct a thorough assessment of community needs, and complete a public consultation prior to providing financial incentives to private developers. Lastly, in order to implement Section 28, the municipality must have provisions in its *Official Plan* to allow for area-wide and area-specific CIPs (York Region already does this through Section 8.3.6 and 8.3.7).

While single- and lower-tier municipalities are able to create a CIPs for any objective listed under Section 28, upper-tier municipalities are limited to the following areas (as part of O.Reg 550/06):

1. Affordable housing;
2. Infrastructure under their jurisdiction; and
3. Areas near planned transportation corridors that have the potential for increased intensification and development.

Within these areas, a municipality is able to provide financial incentives to eligible properties that conform to the goals, objectives, and policies of the CIP. As per the *Planning Act*, a municipality may engage in the following activities in CIP areas:

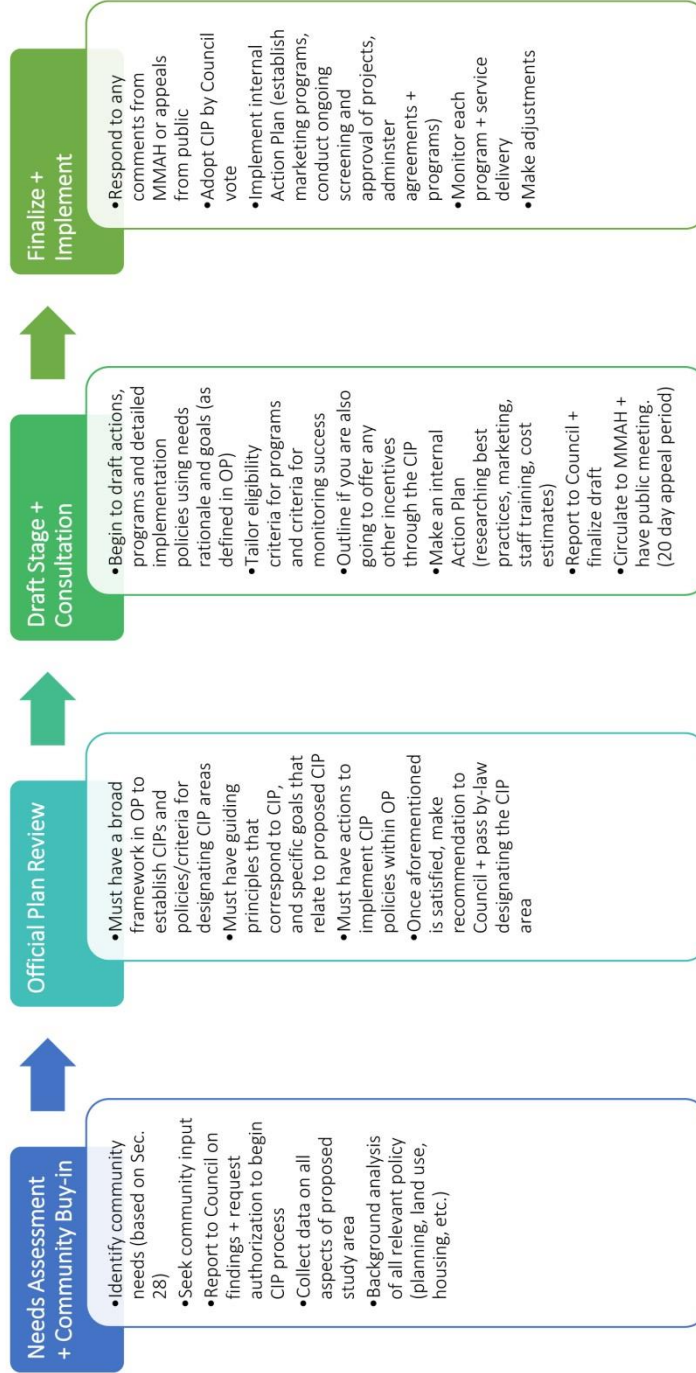
- Acquire, hold, clear, grade or otherwise prepare land for community improvement (28 (3));
- Construct, repair, rehabilitate or improve buildings on land acquired or held by it in the community improvement project area in conformity with the community improvement plan (28(6));
- Sell, lease, or otherwise dispose of any land and buildings acquired or held by it in the community improvement project area to any person or government authority for use in conformity with the community improvement plan (28(6)); and
- Make grants or loans, in conformity with the community improvement plan, to registered owners, assessed owners and tenants of lands and buildings within the community improvement project area. In addition to any person such an owner or tenant has assigned the right to receive a grant or loan, to pay for the whole or any part of the eligible costs of the community improvement plan (28(7)).

If a CIP is to be pursued, York Region must amend their *Official Plan* to include the policies of the CIP (including the area, a definition of the need for the program(s), program explanation, and eligibility requirements).

## Community Improvement Plan Process Graphic

Adapted from: Ministry of Municipal Affairs and Housing. (2008). "Community Improvement Planning Handbook."

Appendix A: Community Improvement Plan Process



Adapted from: Ministry of Municipal Affairs and Housing. (2008). "Community Improvement Planning Handbook."

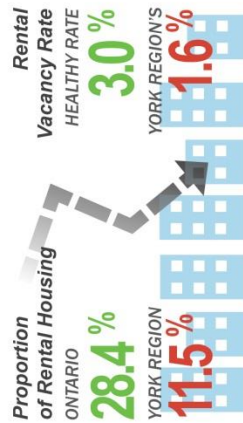
# Appendix 3 – Rental Housing Incentive Program Sample Brochure

## Rental Housing Reality

With a growing regional population, the demand for adequate housing has increased. Rental housing is a vital component of a vibrant and complete community.



## HOW DOES THE LACK OF HOUSING AFFECT YORK REGION



SAMPLE DOCUMENT FOR DISCUSSION

## Rental Housing Incentive Program FAQ

- ▶ **What is "market rental" housing and the RHIP?**  
This is purpose-built rental housing that is guaranteed to remain as rental for a predetermined period of time or for the lifespan of the building.
- ▶ **What is the Rental Housing Office (RHO)?**  
This is the Regional Municipality of York's five-year pilot office to assist with the development application process of market rental housing.
- ▶ **How do I apply/who to contact?**  
Contact the Rental Housing Office.
- ▶ **Who can apply for incentives?**  
Anyone building market rental housing may apply for the incentives by completing an incentive application.
- ▶ **What is required when I hand in my application?**  
A complete incentives application and all planning amendments applications if applicable.
- ▶ **How does the RHO help me with my application?**  
The RHO Housing Planner will provide planning expertise, give information on the incentive package and assist with the development application process.
- ▶ **What is required when I hand in my application?**  
A complete incentives application and all planning amendments applications if applicable.

## TO LEARN MORE...

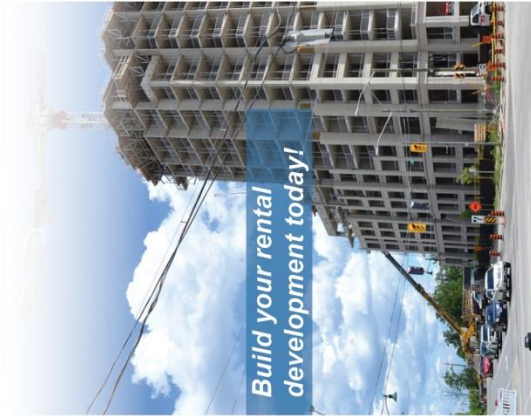
Contact us: **Rental Housing Office**  
Phone: 905-830-4444 Ext. Rental (736825)  
E-mail: rentalhousing@york.ca  
Website: www.york.ca/rentalhousingoffice



SAMPLE DOCUMENT FOR DISCUSSION

# MAKE RENTAL HAPPEN IN YORK REGION

## Rental Housing Incentive Program: A Guide for Developers



SAMPLE DOCUMENT FOR DISCUSSION





**PARKLAND FEE WAIVER**

**PARKING REDUCTION**

**DENSITY BONUSING**

**EXPEDITED PROCESSING**

### TYPES OF INCENTIVES

The Rental Housing Office in partnership with the Region's local municipalities has developed the Rental Housing Incentive Program. The intent is to encourage private developers to build market rental units.

Below are the types of incentives included in the Rental Housing Incentive Program.

#### EXPEDITED PROCESSING

- Prioritized applications for rental developments carried out by York Region and local municipalities (Stage 3)
- Provide technical guidance or support throughout the process
- Reduced processing time will result in reduced carrying costs for a developer

#### TAX INCREMENT EQUIVALENT GRANT (TIEG)

- Provided by York Region to offset the incremental cost of property taxes over a 10 year period

#### DEVELOPMENT CHARGE DEFERRAL

- Deferral provided by York Region interest free for 36 months

#### DENSITY BONUSING

- A density bonus of 25% will be granted by the Local Municipality

#### PARKING REQUIREMENT REDUCTION

- 0.7 parking spaces per unit will be allowed for Medium and High Density scenarios

#### PARKLAND DEDICATION FEE WAIVER

- Waiving of cash-in-lieu for parkland dedication

SAMPLE DOCUMENT FOR DISCUSSION



SAMPLE DOCUMENT FOR DISCUSSION

SAMPLE DOCUMENT FOR DISCUSSION