The Cities of Mississauga and Brampton, Town of Caledon, and Region of Peel

Feasibility Analysis: Evaluation of Potential Impacts and Implementation of an Affordable Housing Inclusionary Zoning Policy

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N. Barry Lyon Consultants Ltd.

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Disclaimer:

The conclusions contained in this report have been prepared based on both primary and secondary data sources. NBLC makes every effort to ensure the data is correct but cannot guarantee its accuracy. It is also important to note that it is not possible to fully document all factors or account for all changes that may occur in the future and influence the viability of any development. NBLC, therefore, assumes no responsibility for losses sustained as a result of implementing any recommendation provided in this report.

This report has been prepared solely for the purposes outlined herein and is not to be relied upon, or used for any other purposes, or by any other party without the prior written authorization from N. Barry Lyon Consultants Limited.

Executive Summary

The Province of Ontario has adopted legislation that will allow the creation of affordable housing through Inclusionary Zoning ("IZ"). An IZ approach would require that a proportion of units within a proposed residential development are provided at affordable rates as a condition of receiving building permit. Prior to implementing IZ, the Province requires that municipalities implement PMTSA plans that identify items such as densities and permitted uses as well as prepare an "Assessment Report" that evaluates the potential impacts of IZ on the housing market and the financial viability of development.

The Cities of Mississauga, Brampton, Caledon, and the Region of Peel are in the process of evaluating the feasibility of inclusionary zoning in their respective municipalities. NBLC was retained by the four municipalities to prepare the above noted Assessment Report. In accordance with Ontario Regulation 232/18, this report assesses:

- An analysis of demographics and population in the municipality.
- An analysis of household incomes in the municipality.
- An analysis of housing supply by housing type currently in the municipality and planned for in the official plan.
- An analysis of housing types and sizes of units that may be needed to meet anticipated demand for affordable housing.
- An analysis of the current average market price and the current average market rent for each housing type, taking into account location in the municipality.
- An analysis of potential impacts on the housing market and on the financial viability of development or redevelopment in the municipality from inclusionary zoning by-laws, taking into account:
  - value of land,
  - cost of construction,
  - market price,
  - market rent, and
  - housing demand and supply.
- It also considers the following related to growth and development in the municipality:
  - Provincial policies and plans.

- Official Plan policies.

Conceptual IZ Policy Approach

Most of the policy experience with IZ has been in the United States. Where IZ has been successfully implemented, the central principle is that increased development density is exchanged to offset the requirement for some affordable housing. In certain instances, there are also financial programs utilized (tax incentives, etc.). Notwithstanding the above, the following analysis tests the impact of potential inclusionary zoning parameters absent any financial incentives (aside from Brampton's Development Charge incentive) and with IZ applying to the entire building. However, it is noted that in some cases, the analysis does assume density well above as-of-right permissions in anticipation of a future planning study for the area. This approach was taken for several reasons:

- Assessing IZ absent financial incentives is the most onerous approach to assessing impacts, allowing municipalities the opportunity to consider less onerous implementation options as the policy advances. If the analysis included incentives and a municipality considered removing these prior to implementation, significant updates to this Assessment Report would be required.
- Another important consideration and rationale for not including any new financial incentives is that over time, the need for incentives will change. If the market sustains upward trajectory, the need for incentives may diminish. The opposite would also be true if the market were to experience a downturn.
- Because the PMTSA plans have not yet been developed, each municipality does not currently know the as-of-right permissions that might be available and the potential for applying bonus density; and PMTSA plans could vary. As this work advances, there is potential to implement IZ in a more nuanced way than assessed in this report (e.g. provision of bonus density, voluntary program where IZ applies to above as-of-right permissions only, etc.).
- The objective of this work is to test the potential impacts of policy absent these tools to provide a basis of evidence for municipalities to use as they consider potential approaches moving forward.

Given the above, the following conceptual IZ policy was assessed:

- IZ requirements are calculated as a percentage of total gross floor area (GFA) in a proposed development, referred to as the "set-aside rate". This analysis tests a set-aside rate of 10% for both condominium and rental development, where 10% of a building must be provided at affordable rates.
- This work assesses the impact of providing affordable rental or ownership homes to satisfy IZ requirements. The affordable rates used for testing include:
    - **Affordable Rental:** 100% of the CMHC Average Market Rent ("AMR") by bedroom type and municipality.

- **Affordable Ownership:** $423,038 (top of Peel's 6th income decile for three-bedroom units); $356,707 (top of Peel's 5th income decile for two-bedroom units); $294,634 (top of Peel's 4th income decile for one-bedroom units).

- The affordable rental units are tested through two scenarios: where affordability is required for a 25-year period, and where affordability is required in perpetuity.
- Other than the currently available incentive program in Downtown Brampton (50% DC reduction assumed in the model), no financial incentives are considered in this work.

Methodology

Our study explores how the conceptual IZ policy might impact the feasibility of residential development in 15 PMTSAs across the Region (1 in Caledon, 4 in Brampton, and 10 in Mississauga). The following summarizes our methodology:

- In each of the 15 test sites, local planning staff developed prototypical development concepts based on emerging development trends. Concepts envision a development that might be achievable based on current policies or through a future development application.
- At each location we first identify underutilized uses and estimate the base land value of these "soft sites" on an "as-is, where-is" basis.
- For each test location we undertook market research to assess local pricing which was used to develop a residual land value proforma model (RLV). The RLV model assesses all the project revenues. From these revenues, we subtract the costs of development and the developer's profit. What remains is land value that a developer might be willing to pay for the property.
- We tested a prototypical purpose-built rental and condominium project in each test location based on the development concepts. This analysis is undertaken with and without applying the conceptual IZ policy.
- If the land value supported by the high-density development opportunity, with IZ requirements included, is at least 10% greater than the "as-is, where-is" value of underutilized properties, we assume there is a viable economic opportunity for IZ to be implemented. If this test is not met, we assume the policy would not be viable. In these latter instances, alternative approaches are necessary (e.g. lower set-aside rate, incentives, bonus density approach, etc.).

Findings

- We discuss in the report the principle that in free markets, pricing is established by the characteristics of supply and demand. With developers already charging the maximum the market can sustain, they will seek to transfer costs to others to protect their profit and the financial viability of the project. As with other City and Regional policies that drive costs such as park fees and development charges, developers will discount the land value they are willing to pay to a vendor to compensate for these costs. The same will be true for costs incurred through IZ requirements.

- When the costs of a development reduce the land value below that of the existing use (base land value), the motivation for the land to be redeveloped is reduced/made infeasible.
- The analysis demonstrates that the conceptual IZ policies may be feasible for residential condominium projects within the Region's stronger market areas. Strong condominium markets observed in Peel Region include:
  - The Hurontario corridor from Port Credit to Uptown.
  - Downtown Brampton (with 50% DC waiver and floodplain mitigation).
  - Others are also identified based on the financial testing; however, site-specific factors impact their ability to absorb IZ impacts as tested (e.g. lack of development sites, land assembly requirements, etc.).
- The other condominium market areas assessed are likely to require alternative approaches. The analysis also illustrates that imposing the conceptual IZ policy on purpose-built rental projects would likely undermine their feasibility irrespective of location in the Region.
- As the high-density residential markets in Peel Region continue to mature, there is the potential to create new affordable housing units over time. However, it will be important to gradually introduce and 'ramp up' IZ expectations as the markets adjust so that there is not an unintended shock to market activity that might otherwise impact new housing supply. For example, vendors of land, who may be unwilling to accept the lower land value as a result of the IZ policy, may defer the sale of the property in hopes that the market will evolve to support higher pricing in the future. This could reduce the supply of land available for redevelopment and undermine other transit-oriented development objectives.
- Implementing IZ in concert with transit investment and other public sector investments/actions (e.g. Riverwalk, land use-change/zoning changes) represents the greatest potential for a successful IZ policy. The value created by these public-sector investments is partially recaptured in the form of affordable housing contributions. Planning studies that increase densities at these stations will also increase value, offsetting some of the impact of IZ.
- The modeling demonstrates a need to strike a balance with policy direction that allows developers to remain attracted to market development opportunities and advance affordable housing objectives. The continued redevelopment of key market areas helps increase the supply of housing, achieving other planning and economic objectives. And, through continued development activity, the outcomes of IZ can begin to be realized.

Recommendations

The municipalities have a range of implementation options that have the potential to yield a steady supply of affordable housing units using Inclusionary Zoning. The financial testing in this analysis demonstrates that this may be especially true in the strongest market areas of Brampton and Mississauga. As Brampton, Mississauga, Caledon, and Peel consider their potential IZ policies, we offer the following recommendations:

1. Markets Need Time to Adjust.

- Despite the results of this analysis, markets are unlikely to adjust to the new realities of IZ over night.
- A transition policy for IZ will be vital to ensure that developers who have already acquired land in the market without considering IZ can advance their development without being subject to an affordable housing requirement, or at the very least be able to account for the impact early in the development process. An adequate transition policy will allow both developers and landowners the opportunity to adjust to the new market realities of an incoming IZ policy. Similar transition policies are also observed when municipalities plan for development charge increases.
- IZ should also be viewed as a forward-looking policy that will be in-force over the long term. From a land economics perspective, implementing an overly aggressive IZ policy (even with a one-year transition period) could result in negative consequences if land acquisition and development activity stalls. While the analysis in this report suggests that Peel's strongest market areas could support IZ, with some being able to absorb an even higher set-aside rate than the 10% inclusion tested, this is not recommended as an initial approach.
- The analysis suggests that a 10% set aside rate in the strongest market areas is a viable policy outcome. Each municipality may consider selecting a lower rate of inclusion for initial policy implementation and increase the requirements over time to allow the market to absorb impacts gradually.

2. Consider Offsets in Weaker/ Moderate Market Areas

- The high-density residential market is not ubiquitous. Therefore IZ is not achievable in a uniform fashion without offsetting measures and/ or a transition framework from municipalities to support development in weaker markets.
- Aside from the strong market areas noted above, many of the PMTSAs displayed limited evidence of being able to absorb the IZ policy as tested. Each municipality could consider the following approaches to improve the viability of an IZ policy in these emerging market areas:
  - Financial incentives.
  - Reduced IZ requirements (e.g. lower set-aside rate).

- Alternative approaches to IZ (e.g. bonus density / voluntary IZ). These alternative approaches could also be considered in the strong market areas as an initial phase of the policy that increases over time.

3. Balance IZ Goals with Broader Development Objectives.

- Avoid implementing high set aside rates in market areas where new development investment is being encouraged and the market for new residential investment is currently weak.
- Given the weak economic evidence of purpose-built rental housing supporting IZ, a response could be to exempt rental projects from IZ or require a lower set-aside rate. If increased rental development is an objective, this action could be further justified.
- For an IZ program to have an enduring impact on affordability in the region, the municipalities should seek affordability for units created through IZ in perpetuity, where possible. This could be achieved through an implementing framework where the municipality manages the IZ units, creates partnerships with non-profits, and/or introduces programs to deepen/lengthen affordability.

4. Develop a Framework for Implementation and Evaluation.

- The regional marketplace is competitive. Municipalities should continue to work on developing IZ frameworks in tandem so that investment activity is not influenced simply by the absence of an IZ policy.
- IZ policies need to be paired with program details regarding who owns and operates the units and the types of agreements that would be registered on title to ensure that the policy is implemented. This represents a next step for the municipalities as they consult with council and stakeholders and begin to frame a preferred policy approach in each community. These considerations are highlighted in Section 7 of this report.
- Evaluate and update the IZ policy at regular intervals to ensure that the policy is nimble and able to adjust to the economic realities of the day; namely land values, residential unit pricing, changes to other municipal fees/ charges and construction costs.

This analysis cannot account for the wide variations of market factors and the interests of developers and landowners. For example, the analysis does not consider landowners of shopping centres who have long capitalized their land costs, or developers that might accept a lower rate of return or have assumptions that differ from those in our analysis. Similarly, some sites may have heritage or other considerations that could add development costs and complexities not accounted for in this analysis. The results therefore should be considered at a high level and used to provide general direction in developing IZ policies. Further review or consideration could be warranted from the perspective of each municipality once PMTSA plans and administrative frameworks are advanced.

1.0 Introduction and Context

The Province of Ontario has adopted legislation that will allow the creation of affordable housing through Inclusionary Zoning ("IZ"), which requires that a proportion of units within a proposed residential development are provided at affordable rates as a condition of receiving building permit. This is the first time that Ontario municipalities will be granted the power of requiring affordable housing in new development, which was previously restricted to processes such as Section 37 agreements and the offering of financial incentives. The Region of Peel, together with the three local municipalities of Mississauga, Brampton, and Caledon, have retained N. Barry Lyon Consultants Limited ("NBLC") to assess the feasibility of implementing IZ policies within select Protected Major Transit Station Areas ("PMTSA").

This analysis examines the economics of prototypical developments in a range of market locations throughout the municipalities (one in Caledon, four in Brampton, ten in Mississauga) to consider the varying impacts of possible policy options. Through an understanding of the subtleties between various markets, we study how the costs of requiring affordable housing could impact the viability of a typical development. This study also assesses varying implementation considerations that both Peel Region and its local municipalities must determine prior to implementing an IZ policy framework.

This analysis considers the new regulatory framework related to Community Benefit Charges (CBCs) pursuant to the More Homes, More Choice Act, 2019 (formerly Bill 108) and Bill 197, The COVID-19 Economic Recovery Act, 2020. This is pertinent to the treatment of Section 37 being replaced with a CBC (up to a maximum of 4% of land value), development charges, and cash-in-lieu of parkland within the financial model.

This analysis also contributes to the identification of potential PMTSAs to allow for the preparation of implementing IZ policies and zoning to meet the Province's "A Place to Grow: Growth Plan for the Greater Golden Horseshoe, 2019" ("Growth Plan") conformity timeline (2022) requirements.

1.1 IZ Regulations – Assessment Report

Ontario Regulation 232/18 under the Planning Act was enacted in April 2018 by the Province of Ontario. The policy allows municipalities to secure affordable housing in new residential development with more than 10 units that is located within a PMTSA. IZ therefore allows a municipality to mandate a certain number of units that must be set aside as affordable housing. It also allows municipalities to prescribe the affordable rates these units must be provided at, the housing types and sizes, and other relevant considerations. To implement IZ, the regulations require that an Assessment Report be prepared that assesses the following:

Assessment Report:

2. (1) An assessment report required by subsection 16 (9) of the Act shall include information to be considered in the development of official plan policies described in subsection 16 (4) of the Act, including the following:

1. An analysis of demographics and population in the municipality.

2. An analysis of household incomes in the municipality.

3. An analysis of housing supply by housing type currently in the municipality and planned for in the official plan.

4. An analysis of housing types and sizes of units that may be needed to meet anticipated demand for affordable housing.

5. An analysis of the current average market price and the current average market rent for each housing type, taking into account location in the municipality.

6. An analysis of potential impacts on the housing market and on the financial viability of development or redevelopment in the municipality from inclusionary zoning by-laws, including requirements in the by-laws related to the matters mentioned in clauses 35.2 (2) (a), (b), (e) and (g) of the Act, taking into account:

i. value of land,

ii. cost of construction,

iii. market price,

iv. market rent, and

v. housing demand and supply.

7. A written opinion on the analysis described in paragraph 6 from a person independent of the municipality and who, in the opinion of the council of the municipality, is qualified to review the analysis.

2. (2) The analysis described in paragraph 6 of subsection (1) shall take into account the following related to growth and development in the municipality:

1. Provincial policies and plans.

2. Official plan policies.

Regulations 2(1)(1-5) have been assessed by the Region of Peel in their recently completed (2018) Housing Strategy that was a foundational document informing the completion of the ten-year Housing and Homelessness Plan. This study assessed demographic and income data, housing supply and demand characteristics, housing prices and rents, identified affordability gaps across the housing continuum, and assessed the supply characteristics needed by low and middle-income groups. The inputs used to determine the conceptual IZ policy framework were informed by this study. This report summarizes the Region's Housing Strategy and assesses the requirements established in regulation 2(1)(6) to assess the potential impact of an IZ policy on the housing market and financial viability of development.

Of note, the following exemptions from IZ are also enforced by the Regulations:

> *8. (1) An inclusionary zoning by-law does not apply to a development or redevelopment where,*
>
> > *(a) the development or redevelopment contains fewer than 10 residential units;*
> >
> > *(b) the development or redevelopment is proposed by a non-profit housing provider or is proposed by a partnership in which,*
> >
> > > *(i) a non-profit housing provider has an interest that is greater than 51 per cent, and*
> > >
> > > *(ii) a minimum of 51 per cent of the units are intended as affordable housing, excluding any offsite units that would be located in the development or redevelopment;*
> >
> > *(c) on or before the day an official plan authorizing inclusionary zoning was adopted by the council of the municipality, a request for an amendment to an official plan, if required, and an application to amend a zoning by-law were made in respect of the development or redevelopment along with an application for either of the following:*
> >
> > > *(i) approval of a plan of subdivision under section 51 of the Act, or*
> > >
> > > *(ii) approval of a description or an amendment to a description under section 9 of the Condominium Act, 1998; or*
> >
> > *(d) on or before the day the inclusionary zoning by-law is passed, an application is made in respect of the development or redevelopment for a building permit, a development permit, a community planning permit, or approval of a site plan under subsection 41 (4) of the Act.*

(2) Despite clause (1) (b), an inclusionary zoning by-law applies to any offsite units that would be permitted in a development or redevelopment.

These exemptions therefore state the minimum building size (over ten units) and the minimum transition policy (exemption for properties that have submitted the noted development applications prior to IZ coming into force through the municipality's Official Plan or IZ by-law).

1.2 Framing Affordability Challenges: Peel Region Housing Strategy (2018)

In 2018, the Region of Peel developed a Regional Housing Strategy to study the varied housing needs of Peel residents and to develop a roadmap including targets, tools, and strategies to address Peel's housing challenges and support the development of complete communities. The Regional Housing Strategy was developed through four components of work:

- Component 1: Housing Needs Assessment
- Component 2: Long- and Short-Term Outcomes and Targets
- Component 3: Roles and Responsibilities of the Region and Partners
- Component 4: Financial Incentives and Planning Tools

The Regional Housing Strategy was aligned with relevant Federal and Provincial direction including the principles of the Federal National Housing Strategy and the Growth Plan. It also supported the visions and goals of Regional initiatives including the 2015-2035 Strategic Plan and the Region's Growth Management Strategy and considered local municipal housing research and initiatives including the City of Mississauga's Making Room for the Middle and Caledon's Housing Study.

Since 2018, the Regional Housing Strategy has been used to develop the Peel Housing and Homelessness Plan (2018-2028) as required under the *Housing Services Act*, and Regional Official Plan policy directions as part of Peel 2041+: Regional Official Plan Review, in addition to supporting many other initiatives across a range of Regional divisions. **Figure 1** and the following points provide a high-level summary of the findings of this work specific to affordability, with the full report available through the Region's website:

- Home prices and average market rents in Peel Region are increasing at a much higher rate than household incomes, which is making it increasingly challenging for households with low (below the 4th income decile) and moderate incomes (4th – 6th income decile) to secure housing they can afford.
    - The average house price in Peel increased by 139% between 2005 and 2017, with average rental rates reported by CMHC increasing by 21.5% between 2010 and 2017. By comparison, the average household income in Peel increased by only 15.1% from 2010 to 2017, with inflation being 11.4% during the same period.

- The rental housing supply is increasing, however most of this increase is occurring in the secondary rental market, and the increase is not keeping up with demand. Similarly, the supply of subsidized and supportive housing in Peel Region is not meeting demand.
- Households who are facing housing affordability issues in Peel Region are increasing:
  - In 2015, 31.8% of all households in Peel Region were facing housing affordability issues and are therefore identified as being in Core Housing Need by Statistics Canada. Peel therefore has the highest proportion of households in Core Housing Need outside of the City of Toronto, which includes York, Halton, and Durham Regions. For reference, only 25.8% of Peel households were in Core Housing Need in 2000, representing an increase of 72.2% over this period.
  - Within the local municipalities, 33.6% of Brampton households, 31.3% of Mississauga households, and 21.1% of Caledon households were in Core Housing Need in 2015.
- As expected, households with low incomes are much more likely to encounter housing affordability challenges. In 2015, 70.3% of all households with low incomes were spending 30% or more of their gross household income on shelter costs. Whereas 30.5% of moderate-income households were spending 30% or more of their income on housing costs.
- Larger households with five or more persons, youth households, recent immigrant households, couples with children, and immigrant households are the most likely groups to encounter housing affordability challenges.

Based on the data and analysis, the Housing Strategy identified several gaps across the housing continuum. To address affordability challenges, a target of 1,000 low and 1,000 moderate-income homes was established on an annual basis to address the housing supply gaps, including both rental and ownership housing, however an emphasis on middle-income rental housing was also identified. This is summarized by **Figure 1**.

Peel Region has updated some of the data and analysis where appropriate for 2020 to provide the most up to date income and affordability challenges in Peel Region to be addressed by the upcoming IZ framework and to provide additional details for each local municipality (whereas the Housing Strategy may have only provided Region-wide data and findings for certain aspects). These documents provide the foundational review of demographics, population, incomes, housing supply, and affordability constraints as required to be assessed by the Assessment Report through Ontario Regulation 232/18. This update document is also available on the Region's website.

Figure 1: Summary of the Gaps Along the Housing Continuum for Low- and Moderate-Income Households (2018 Peel Housing Strategy)

	Emergency / Temporary Housing	Permanent Affordable Housing: Low Income (Households with earnings of $59,156 or less	Permanent Affordable Housing: Moderate Income (Households with earnings of $59,157 - $106,002	Permanent Affordable Housing: Supportive Housing
Who they are	Households / persons without permanent housing	129,054* households in 2016 (income deciles 1-3)	129,054* households in 2016 (income deciles 4-6)	Households / Persons with need for permanent supportive housing
The need	26.9% shelter use increase: • Shelters at capacity • Insufficient beds for victims of family violence and no beds for victims of human trafficking • Lack of upfront diversion / prevention • Lack of transitional support for youth / victims of family violence	70% of households cannot find affordable housing: • Larger households • Multiple family households • Couples with children/lone parents • Immigrant households • Youth households • Seniors • Persons living alone • Two or more unrelated people living together • People with a disability	30% of households cannot find affordable housing: • Homeowners • Larger households • Couples with children • Multiple family households • Immigrant households	50% of demand unmet: • Mental illness (4 times more people on the waitlist than units • Physical disabilities • Acquired brain injury • Intellectual disabilities • Autism spectrum • Frail health • Substance abuse - addictions
Type of housing required	• Safe, stable temporary housing to address immediate needs • Quicker access to permanent housing • Transitional units for youth and victims of family violence	• Rental housing which costs $1,259 or less per month** • Homeownership no more than $235,291*** • 1 and 2 bedroom units for smaller households • 3+ bedroom units for larger households	• Rental housing which costs no more than $2,650 per month** • Homeownership which costs no more than $421,617 • Units with 3+ bedrooms for larger households	• Affordable supportive housing units

* Low income and moderate income households are based on 3 income deciles, therefore they have the same amount of households in each income group

** Based on 30% of monthly estimated average household income (2017) for households within this earnings segment and other housing cost factors

*** Based on 30% of maximum expenditure on ownership housing for households within this earnings segment

Figures 2 and **3** compare the CMHC average market rent to the income deciles within Mississauga and Brampton. It is noted that these average rents do not represent the actual market rent that a landlord is able to charge a tenant for a vacant unit, rather it represents the average rent paid by all tenants across the rental universe, including long-term tenants. These figures therefore likely under-represent the affordability challenges of these households. An analysis of market rents is undertaken later in this report.

- As illustrated by **Figures 2** and **3**, the affordability challenges in Brampton and Mississauga yield similar results:
  - The analysis assumes a household will not spend more than 30% of their gross monthly income on shelter costs. Within this context, the rental market is unaffordable to all low-income households.
  - Most moderate-income households, aside from the top of this income spectrum (i.e. the 6th income decile), can only afford a bachelor or one-bedroom unit. Those in the 6th income

decile in Brampton could afford both a 2- and 3-bedroom unit, whereas this group could only afford a 2-bedroom unit in Mississauga.

  - As expected, high-income earners can afford a broad spectrum of units offered in the market.

  - CMHC rental data was not available in Caledon due to the limited supply of rental housing.

- **Figures 4, 5**, and **6** provide a similar analysis for the ownership market in each local municipality. These Figures also yield similar results across each municipality, illustrating that on average, a home in each local municipality is only affordable to households earning above the 9th income decile.

  - The average ground-oriented home is on average unaffordable to all low and moderate-income households, and even some households earning above the 6th income decile.

  - The average condominium unit is also largely unaffordable to most households in Peel Region, including low- and moderate-income households. Only in Brampton is a condominium unit within reach for a household at the top end of the moderate-income spectrum.

Figures 7 and **8** provide additional affordability data by bedroom and household size.

Ultimately, these results illustrate the significant affordability challenge in Peel Region. The Peel Housing Strategy identified a need for 1,000 new low- and moderate-income homes every year. Peel Region, and each local municipality, is currently addressing these targets through a wide variety of strategies including the launch of an Affordable Housing Financial Incentives Pilot Program, the redevelopment of Peel Living Sites and the development of municipally owned land through the Peel Housing Master Plan, the provision of housing benefits, and many other housing programs. Inclusionary Zoning is one more tool available to municipalities to assist with creating new affordable housing and meeting the goals found within the Regional and Local Official Plans, Housing and Homelessness Plan, and other relevant documents and policies.

The base framework for testing an IZ policy within this report was selected by each local municipality based on the findings and needs identified by the work summarized in this section.

Figure 2: Comparison of Average Market Rents and Renter Household Income Deciles: Mississauga (Peel 2018 Housing Strategy Data Update - CMHC Rental Market Report 2019, Statistics Canada Custom Tabulation data 2016 and Region of Peel Affordable Rental Price Calculation Spending 30% of Gross Household Income on Housing Costs)

Mississauga Deciles (2019)		Affordable Rents by Decile	AMR by Unit Type (2019)				
			Bachelor	1 Bedroom	2 Bedroom	3 Bedroom +	Total
			$1,007	$1,297	$1,462	$1,652	$1,425
Decile 1	$14,918	$373	No	No	No	No	No
Decile 2	$23,620	$591	No	No	No	No	No
Decile 3	$33,131	$828	No	No	No	No	No
Decile 4	$42,569	$1,064	Yes	No	No	No	No
Decile 5	$52,489	$1,312	Yes	Yes	No	No	No
Decile 6	$63,080	$1,577	Yes	Yes	Yes	No	Yes
Decile 7	$76,427	$1,911	Yes	Yes	Yes	Yes	Yes
Decile 8	$93,538	$2,338	Yes	Yes	Yes	Yes	Yes
Decile 9	$121,886	$3,047	Yes	Yes	Yes	Yes	Yes
Decile 10	$121,887+	$3,048+	Yes	Yes	Yes	Yes	Yes

Figure 3: Comparison of Average Market Rents and Renter Household Income Deciles: Brampton (Peel 2018 Housing Strategy Data Update - CMHC Rental Market Report 2019, Statistics Canada Custom Tabulation data 2016 and Region of Peel Affordable Rental Price Calculation Spending 30% of Gross Household Income on Housing Costs)

Brampton Deciles (2019)		Affordable Rents by Decile	AMR by Unit Type (2019)				
			Bachelor	1 Bedroom	2 Bedroom	3 Bedroom +	Total
			$917	$1,274	$1,447	$1,583	$1,401
Decile 1	$17,869	$447	No	No	No	No	No
Decile 2	$26,331	$658	No	No	No	No	No
Decile 3	$35,853	$896	No	No	No	No	No
Decile 4	$44,152	$1,104	Yes	No	No	No	No
Decile 5	$53,883	$1,347	Yes	Yes	No	No	No
Decile 6	$63,899	$1,597	Yes	Yes	Yes	Yes	Yes
Decile 7	$76,311	$1,908	Yes	Yes	Yes	Yes	Yes
Decile 8	$93,205	$2,330	Yes	Yes	Yes	Yes	Yes
Decile 9	$121,000	$3,025	Yes	Yes	Yes	Yes	Yes
Decile 10	$121,001+	$3,026+	Yes	Yes	Yes	Yes	Yes

Figure 4: Comparison of Average Home Prices to Affordable House Prices by Mississauga income Deciles: Peel 2018 Housing Strategy Data Update - Toronto Real Estate Board Market Outlook 2019, Statistics Canada Custom Tabulation data 2016 and Region of Peel Affordable House Price Calculation based on a 5% down payment and spending 30% on housing costs):

Mississauga Deciles (2019)		Affordable House Price by Decile	Average Home Price by Home Type (2019)				
			All homes	Detached	Semi	Town/Row	Condo
			$759,998	$1,105,480	$754,021	$623,722	$479,939
Decile 1	$26,367	$100,982	No	No	No	No	No
Decile 2	$42,851	$164,117	No	No	No	No	No
Decile 3	$57,616	$220,664	No	No	No	No	No
Decile 4	$73,012	$279,631	No	No	No	No	No
Decile 5	$89,641	$343,319	No	No	No	No	No
Decile 6	$108,086	$413,961	No	No	No	No	No
Decile 7	$130,697	$500,703	No	No	No	No	Yes
Decile 8	$160,707	$620,530	No	No	No	No	Yes
Decile 9	$210,500	$819,684	Yes	No	Yes	Yes	Yes
Decile 10	$210,501+	$819,685+	Yes	Yes	Yes	Yes	Yes

Figure 5: Comparison of Average Home Prices to Affordable House Prices by Brampton income Deciles: Peel 2018 Housing Strategy Data Update - Toronto Real Estate Board Market Outlook 2019, Statistics Canada Custom Tabulation data 2016 and Region of Peel Affordable House Price Calculation based on a 5% down payment and spending 30% on housing costs):

Brampton Deciles (2019)		Affordable House Price by Decile	Average Home Price by Home Type (2019)				
			All homes	Detached	Semi	Town/Row	Condo
			$727,324	$845,154	$671,519	$587,537	$405,448
Decile 1	$34,409	$131,786	No	No	No	No	No
Decile 2	$50,777	$194,474	No	No	No	No	No
Decile 3	$65,403	$250,488	No	No	No	No	No
Decile 4	$79,441	$304,252	No	No	No	No	No
Decile 5	$94,110	$360,432	No	No	No	No	No
Decile 6	$109,590	$419,722	No	No	No	No	Yes
Decile 7	$127,963	$490,227	No	No	No	No	Yes
Decile 8	$151,394	$584,570	No	No	No	No	Yes
Decile 9	$188,747	$734,979	Yes	No	Yes	Yes	Yes
Decile 10	$188,748+	$734,980+	Yes	Yes	Yes	Yes	Yes

Figure 6: Comparison of Average Home Prices to Affordable House Prices by Brampton income Deciles: Peel 2018 Housing Strategy Data Update - Toronto Real Estate Board Market Outlook 2019, Statistics Canada Custom Tabulation data 2016 and Region of Peel Affordable House Price Calculation based on a 5% down payment and spending 30% on housing costs):

Caledon Deciles (2019)		Affordable House Price by Decile	Average Home Price by Home Type (2019)				
			All homes	Detached	Semi	Town/Row	Condo
			$946,675	$1,040,004	$693,131	$658,003	$667,333
Decile 1	$42,055	$161,069	No	No	No	No	No
Decile 2	$64,292	$246,235	No	No	No	No	No
Decile 3	$86,150	$329,947	No	No	No	No	No
Decile 4	$104,808	$401,407	No	No	No	No	No
Decile 5	$123,086	$471,409	No	No	No	No	No
Decile 6	$142,618	$546,217	No	No	No	No	No
Decile 7	$166,729	$638,744	No	No	No	No	No
Decile 8	$197,913	$764,189	No	No	Yes	Yes	Yes
Decile 9	$251,349	$978,749	Yes	No	Yes	Yes	Yes
Decile 10	$251,350+	$978,750+	Yes	Yes	Yes	Yes	Yes

Figure 7: Households by Households Size and Bedroom Count Scenarios Compared to CMHC Average Market Rents, Housing Affordability, and Renter Household Income Deciles: Peel Region, 2019

Household Size	% of Households by Household Size	Bedroom Unit Count*	Average Rental Rates (CMHC)	Renter Household Income Level Required to Afford (30% or less)	Unit Type Affordability Based on Renter Household Income Decile Group and Household Size
1	16%	Bachelor	$987	$41,691	Decile 6
1	16%	1	$1,291	$62,747	Decile 8
2	24%	1	$1,291	$53,295	Decile 5
2	24%	2	$1,458	$64,153	Decile 6
3	19%	2	$1,458	$61,059	Decile 5
3	19%	3	$1,635	$72,344	Decile 6

Source: CMHC Rental Market Report 2019, Statistics Canada Custom Tabulation data 2016 and Region of Peel Affordable Rental Price Calculation and spending 30% on housing costs

*Based on scenarios/the assumption of how households utilize bedroom units

Figure 8: Households by Households Size and Bedroom Count Scenarios Compared to Average TREB rental rates, Housing Affordability, and Renter Household Income Deciles: Peel Region, 2019

Household Size	% of Households by Household Size	Bedroom Unit Count*	Average Rental Rates (TREB)	Renter Household Income Level Required to Afford (30% or less)	Unit Type Affordability Based on Renter Household Income Decile Group and Household Size
1	16%	Bachelor	$1,730	$81,368	Decile 9
1	16%	1	$2,143	$81,369+	Decile 10
2	24%	1	$2,143	$91,666	Decile 8
2	24%	2	$2,536	$116,556	Decile 9
3	19%	2	$2,536	$102,422	Decile 8
3	19%	3	$2,626	$127,381	Decile 9

Source: TREB Rental Market Report 2019, Statistics Canada Custom Tabulation data 2016 and Region of Peel Affordable Rental Price Calculation and spending 30% on housing costs

*Based on scenarios/the assumption of how households utilize bedroom units

2.0 Inclusionary Zoning's Impact on the Housing Market and Development Viability

This section assesses the core principals of development and land economics within the context of an emerging IZ policy environment. The discussion in this section will assess the following key points:

- How housing prices and development costs are established;
- How development viability and land value is determined;
- How increasing costs and/or reduced revenue can impact a housing project;
- How IZ could impact real estate development activity;
- Why IZ could succeed or fail as an affordable housing policy; and
- How offsets can play a role in creating a successful and sustainable IZ policy.

2.1 Housing Prices and Costs – Fundamental Factors

The following assesses how housing prices and costs are established and the connection between these two fundamental factors that impact real estate development.

2.1.1 *Factors Influencing the Price of Housing*

The highest and best use of a site is established by determining the most marketable housing types, pricing, product positioning (e.g. mid-market, luxury), sales absorption rates or lease-up rates, target purchasers and marketable suite mix, required project amenities, and other similar items. Often, these inputs feed into a financial analysis to evaluate project viability, land value, and profit. When deciding how to price housing, it is important to consider both demand and supply conditions in the local market area. This generally involves an analysis of the following:

Figure 9

Demand	Supply
○ Population growth and projections	○ Sale values & absorptions of other marketing projects "the competition"
○ Demographics and incomes ○ Target purchaser groups	○ Project positioning, interior features & finishes, amenities at competitive projects
○ Purchaser preferences ○ Local employment opportunities	○ Review of development applications to understand future supply/ competition
○ Site/ market strengths & weaknesses	○ Sale values & market performance of the resale market "secondary competition"

○ Location & neighbourhood amenities	○ Parking requirements and achievable revenue (e.g. free parking or added charge)
○ Lending rates & regulations	○ Growth and land use policies affecting future development patterns
○ Future/ planned transit investments	

- The process of establishing pricing typically begins by characterizing the demand-side of the market, which includes identifying target purchaser groups, assessing recent growth patterns and projections, defining the market strengths and weaknesses of the site, preferences of target purchasers, impact of lending rates and regulations (e.g. mortgage stress tests, foreign buyer taxes), and other similar analyses.

- Once the demand-side has been adequately characterized, the supply of housing in the local market is assessed. This is completed by surveying other comparable housing developments that are actively marketing to understand how competitive supply is priced, the rate at which product is absorbed by the market, the positioning and amenities included, and other design/market features that warrant review.

- Understanding the resale market is also an important consideration, as purchasers will often consider both a new-build and an existing home when making a purchase. Pricing must therefore remain competitive with both comparable existing housing and new housing developments.

Ultimately, developers are seeking to determine the maximum they can charge purchasers or renters and still sell or lease-up their project within a predetermined time frame. If a developer sells or leases very few homes, this is generally a sign that pricing was too high for the project (or some other project flaw). Conversely, if the entire project sells out immediately, the developer may have been able to charge more for the product.

Developers carefully examine supply and demand to ensure the above does not happen. The industry seeks to ensure that projects charge the maximum price that the market will bear while still maintaining a healthy absorption pace. Developers will also monitor supply and demand conditions throughout a sales campaign, often increasing pricing throughout the process at specific thresholds (e.g. at the beginning of construction). Some developers also may not release all units to the market at the same time, later adjusting pricing or other elements based on the market’s response to an initial release. This is an important consideration, as developers can – and often do – increase pricing if the market supports such an increase. A similar process occurs for rental development, where developers reassess the rental rate they can charge as turnover occurs. This adjustment to pricing is independent of any shift in development costs.

2.1.2 *Factors that Influence the Cost of Delivering Housing*

The delivery cost of housing sets the minimum price a home can be sold for. If market pricing falls below this benchmark, the project is not constructed.

The costs of building housing generally fall into one of four discrete categories:

1. Hard Construction Costs
2. Soft Development Costs
3. Developer Profit
4. Land Costs

The following provides a brief description of each cost category, including commentary related to how these costs are determined.

Hard Construction Costs

Hard construction costs encompass all the materials and labour required to physically construct a building. These costs include construction contracts, building materials, appliances, site servicing, landscaping, site preparation (e.g. demolition, excavation, grading), parking, and other related costs. Hard construction costs will vary from project to project as factors such as topography and grading, geotechnical issues, site contamination, building materials (e.g. concrete vs wood), the height of a building, surface vs. underground parking, site-specific impacts (e.g. heritage preservation), and other similar considerations can all impact construction costs. Hard construction costs are dictated by the market, albeit a different market than house prices:

- Developers will purchase building materials in the market like any other commodity, which are subject to fluctuations in price. Macro-economic trade impacts (e.g. steel tariffs) can also impact the price of materials and other commodities.

- Like building materials and commodities, developers must pay the market price for labour, which can fluctuate based on availability, unions, and other factors.

- Competition amongst builders can also increase the cost of building materials and put specialized labour under constrained supply and demand conditions.

Overall, once the specifics of a development project are well defined, hard construction costs become relatively fixed.

Soft Development Costs

Soft development costs include all the other costs that a developer will encounter when developing real estate. These items include government-imposed development fees and charges (e.g. development charges, HST, application fees, etc.), as well as a host of other costs including:

- The consultant team – typically consisting of urban planners, architects, urban designers, landscape architects, engineers, lawyers, public consultation experts, and others.

- Project marketing costs and sales/ leasing commission fees.

- Construction financing costs.

- Development and construction project management.
- Overhead and cost contingencies.
- Legal fees and insurance costs.

Like hard costs, soft development costs can also shift depending on the specifics of a development project. Factors such as project scale and absorption rates can impact development timing, which can affect financing and other carrying costs. These costs can also shift depending on the approvals required, size of the property, value of the land (e.g. cash in lieu of parkland), the Section 37 agreement negotiated or the new CBC, changes to development charges, and others. Increases to development related charges therefore directly increase the soft development costs of delivering new homes.

Developer Profit

Developers require a certain profit threshold to undertake a development project. They are investing their skill and equity, as well as taking on significant risk in order to make a profit that is superior to the rate of return that might be achievable through another investment vehicle.

If an acceptable profit margin cannot be achieved, developers will seek development opportunities in other markets, invest in other real estate asset classes, or choose another investment vehicle altogether.

Land Acquisition Cost

Developers must also acquire land in the market to build a new housing project, as assessed in the discussion to follow.

2.2 Understanding Land Values for High-Density Residential Projects

Accurately assessing the land value for high-density development is based on two fundamental inputs: revenues and expenses.

Project revenues are driven by the sale value of units as well as upgrades to finishes, floor premiums, parking spaces, and storage lockers. Once project revenues have been estimated, developers will then begin to calculate all anticipated hard and soft project costs. As illustrated by **Figure 10**, developers will then subtract these costs, as well as their required profit from the estimated revenue of the project. The remaining amount, or residual, is referred to as the Residual Land Value (RLV). The RLV represents the maximum price a developer could pay for the land to construct the housing project.

The RLV will result in one of two scenarios:

- **RLV is equal to or higher than the asking price of land in the market:** If the RLV of a proposed development is greater than the asking price of land in the market, a developer can, in theory, purchase the land and build the project while meeting their profit expectation.

- **RLV is below the asking price of land in the market:** In this situation, the housing development would be considered unviable because a developer could not pay the asking price of land and still maintain their minimum profit margin.

Figure 10

Understanding Residual Land Value	
Project Revenue	A
Project Costs	- B
Developer Profit	- C
Residual Land Value	= D

2.2.1 *How Would IZ Impact this Dynamic?*

The introduction of IZ influences the variables noted in **Figure 8** in the following ways:

- **Project Revenue:** Will **decrease** as developers will be forced to charge below-market rates for some of the units in their development.
- **Project Costs:** The cost of building and delivering affordable and market rate homes are similar. IZ would therefore not impact development costs in a significant way.
- **Developer Profit:** Developer's are still investing their time, skill, and equity to build a housing project. Developers would therefore ensure, to the best of their ability, that IZ does not impact the minimum profit threshold that would motivate them to advance a housing project. It is also in the public sector's interest to keep developers motivated to expand the supply of housing.

2.2.2 *IZ will therefore Primarily Impact Land Value*

If revenue decreases, and project costs and developer profit remain the same, the amount that is available to pay for land (RLV) will decrease. In other words, the developer would pay less for the development site because their revenue has decreased. **Figure 11** shows this nuance by illustrating the key differences between a typical redevelopment proforma and one with IZ

The RLV is impacted because the other elements of the equation are generally fixed. Developers cannot simply increase the price of homes beyond what the market will support. If the market does support an increase in the price of new homes, developers are likely to increase pricing regardless of any change in costs. This change in pricing is regularly observed in the market as supported by supply/demand conditions.

A cap on revenue, as the result of an IZ policy, would be treated no differently than a developer discovering soil contamination issues at a property they are considering for purchase. A developer would not pay full market value for a site with soil contamination issues and then later attempt to recapture the increased cost of remediating the site by increasing the sale value of homes at pricing beyond what is supported in the market. Rather, if soil remediation works were to require $1.0M in added project costs, the developer should seek to pay $1.0M less for the property.

Notwithstanding the above, if the price of housing continues to escalate, as it has in the GTHA and Peel Region, the impact of IZ can largely be absorbed without any negative impact on land value. This has been observed when municipalities have increased development charges, and where land values have continued to increase because the price of housing has increased by a similar or higher amount. However, if pricing were to stabilize – or decline – while costs continued to rise, developers would naturally pay less for land.

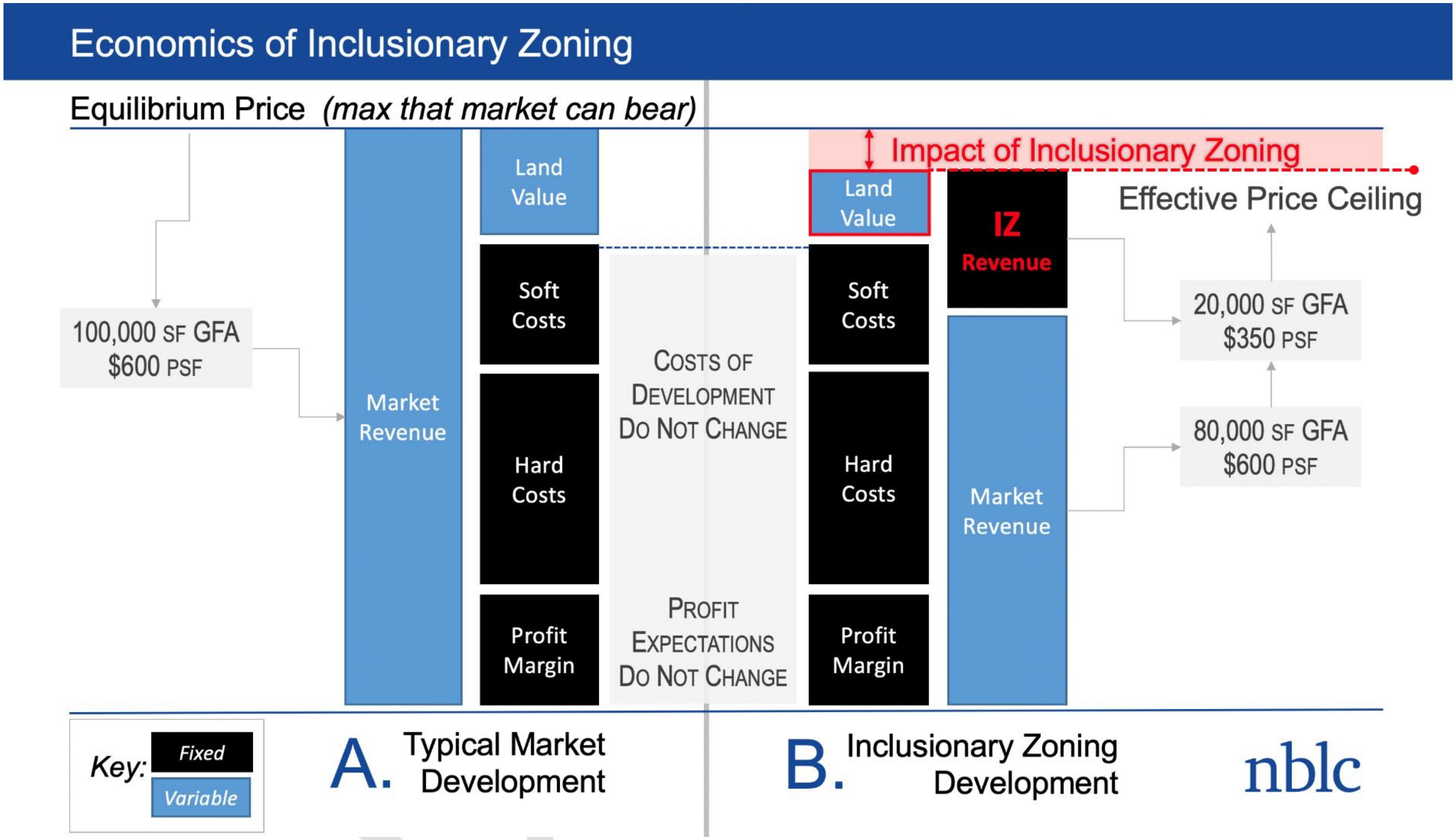
The discussion in this section therefore concludes that increased costs / reduced revenue potential will place downward pressure on land values. The only exception to this is where a developer has already acquired land, as a developer cannot pay less for land to account for rising costs / decreased revenue if they have already purchased land without accounting for this impact. In this situation, a developer must either: accept a lower return; delay the project until the market is more favourable; or cancel the project. Adequate transition policies are necessary for these situations. Through our discussions with developers across the GTHA, it is apparent that there have been instances where they have had to compress their profit margin to make a project work or have had to cancel a project in light of unforeseen hard cost increases occurring after land has been purchased. In our view, significant profit margin compression is not sustainable for the industry over the long-term.

2.3 How Might IZ Impact Real Estate Development Activity and the Supply of Affordable Housing?

For IZ to be successful, market development must remain viable. The core premise of IZ is to have the private sector incorporate affordable housing into a market housing development. If development becomes unviable because of IZ, the private sector will not build new housing in locations where IZ applies. This situation will result in several unintended negative consequences:

- Development will not occur where IZ applies, which is within Peel's PMTSAs. This will result in a lack of transit-oriented development, the failure to meet Provincial density targets, and the failure to meet Provincial and municipal planning policies for transit stations.

Figure 11



Economics of Inclusionary Zoning
Equilibrium Price (max that market can bear)
100,000 SF GFA
$600 PSF
Market Revenue
Land Value
Soft Costs
Hard Costs
Profit Margin
Costs of Development Do Not Change
Profit Expectations Do Not Change
Impact of Inclusionary Zoning
Land Value
Soft Costs
Hard Costs
Profit Margin
IZ Revenue
Market Revenue
Effective Price Ceiling
20,000 SF GFA
$350 PSF
80,000 SF GFA
$600 PSF
Key: Fixed
Variable
A. Typical Market Development
B. Inclusionary Zoning Development
nblc

- New affordable housing will not be supplied as development impacted by IZ does not advance. This could also have larger impacts on the housing market as supply is negatively impacted, which would perpetuate affordability challenges as demand for housing in the GTA continues to increase.
- As IZ is a forward-looking policy, with the intention that developers will pay less for land to account for the reduced revenue potential as a result of IZ, Peel must account for developers who already own land and have purchased their property without accounting for IZ. Adequate transition policies should therefore be considered, which are explored later in this report. These transition policies are also frequently observed when a municipality is pursuing fee increases (e.g. development charges).

This report therefore provides a basis of evidence to ensure the IZ policy is implemented sensitively and in a nuanced way that accounts for the differing markets across Peel Region. The core purpose of this report is to provide evidence of how IZ can be implemented without creating negative impacts across the housing market. If IZ is implemented in such a way, the negative consequences noted above can largely be avoided, resulting in the continued supply of market and affordable housing by the private and non-profit sectors within the Region's PMTSAs.

Example: Assume a site zoned and used for a gas station with an estimated land value of $2.5M. If the land value of the site for high density residential development is depressed due to the impact of an IZ policy to $2.0M, then we assume the owner would continue to use the property for its current use. The owner would not be motivated to sell. New market and affordable housing would not proceed.

2.4 How can offsets play a Role in IZ Implementation?

In most jurisdictions where IZ has been successfully implemented, the underlying principle is that some type of offset is offered to lessen the burden of delivering affordable housing by the private sector. Offsets can include redesignation of land (i.e. from industrial to residential), permitting additional density as-of-right, public infrastructure investments (e.g. transit, flood proofing measures), and/or financial programs (e.g. tax incentives, development fee reductions, etc.). These offsets are often cited as being critical to an enduring and sustainable approach to IZ.

Example: The approach to Inclusionary Zoning in NYC

New York City started using Inclusionary Zoning in 1987. Acknowledging that it was infeasible to spend its way out of a housing crisis with financial incentives, NYC determined that there was a need to engage the private market in a solution. At first the program was voluntary, offering additional "bonus" density to developers who elected to include affordable units in their projects. However, the City moved to adopt a more permanent program beginning with a financial assessment study in 2014.

The new mandatory program adopted in 2016 delivers permanently affordable units, using proactive up-zoning as the mechanism to create new value which can be exchanged for IZ units. The City conducts detailed planning studies to identify areas with growth potential and "soft" development sites. Five studies of this nature have been completed to date in order to introduce new IZ policies. And developers can request that the City study areas where new upcoming IZ policies could be applied (e.g. areas that might shift from manufacturing to mixed use).

Important lessons from NYC's experience with IZ are:

- That the expectations and development entitlements need to be clear, ambiguity introduces risk and speculation which undermines the policy opportunity. It is the forward-looking nature of the policy, which anticipates future market demand (and value) and pre-emptively up-zones those locations, that is fundamental.
- The NYC approach also provides an allowance for appeal in some circumstances. The burden of proof is on the developer to demonstrate that the IZ policy makes a project unviable. As of January 2020, no developer had been successful in an appeal.
- Encourage on-site affordable housing delivery through high in-lieu fees and onerous off-site policies. Delivery off-site in NYC (but within one half mile) triggers an additional 5% IZ requirement.

Compliance and monitoring cannot be overlooked. IZ units in NYC are marketed through a single portal, "Housing Connect". Developers must hire not for profit housing administrators to coordinate marketing, income qualification and unit registration. They are also responsible for re-rentals on turnover. The City has also established a Compliance and Enforcement unit where residents can report suspicions of non-compliance.

The following explores how different offsets can impact the implementation of IZ.

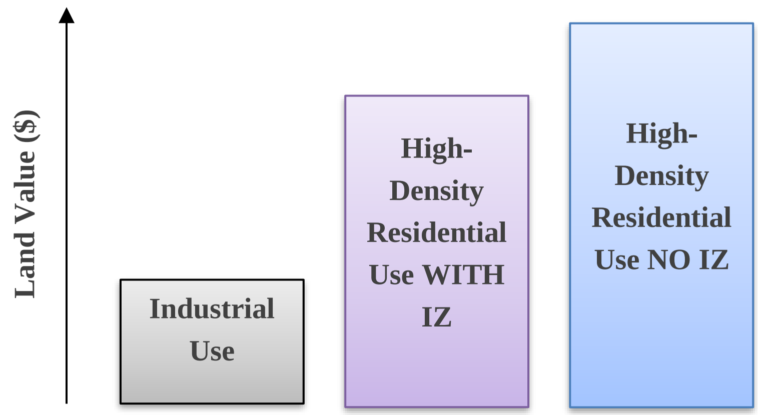
2.4.1 *Redesignation / Rezoning of Land*

Perhaps the most common offset offered through IZ in American jurisdictions, many municipalities will perform one of, or both of the following:

- **Rezone land from non-residential to residential uses.** This can have a significant value implication for landowners, where land that is currently zoned for low-density commercial or industrial use is granted high-density residential permissions. As illustrated by **Figure 12**, the land value of the property can significantly increase when it is granted high-density residential permissions.
  - A developer is likely willing to pay much more for a property with high-density residential permissions than a property zoned exclusively for industrial use, a benefit that would solely be captured by the current property owner when they sell their property to a developer.
  - In this situation, IZ would reduce the amount a developer would pay for the property. However, so long as the land value is not depressed too much, the property owner would still be motivated to sell, and the developer could move forward with their project while incorporating affordable housing as required by the IZ policy.

- It is therefore beneficial to achieving affordable housing objectives that IZ is implemented in concert with a land use / zoning change.

Figure 12: Example of Land Use Change on Land Value



- **Increase the as-of-right density permitted for residential development.** Increasing the height and density of development (e.g. maximum of 4 storeys increased to 10 storeys) can also be an effective offset.

  - Very similar to the previous example, increasing the maximum allowable density can increase the value of a project, which can assist with offsetting the impact of IZ.

  - It is also possible to structure the program so that a developer can build a project at the as-of-right permission (e.g. 6 storeys), but if they want to build to 10, IZ would apply on the incremental increase. This is sometimes referred to as a voluntary IZ program.

2.4.2 *Public Sector Investment*

Public sector investment in transit and infrastructure can also improve demand and the value of residential development. Peel and the Province of Ontario are currently investing in new transit projects and improvements across the Region, including:

- Service level enhancements at GO Stations, some of which will include two-way and all-day GO Service with 15 minute or quicker headways. This is a significant investment that will improve current GO Rail service to a more rapid ‘subway-like’ service.
- New BRT and LRT lines, including service along Hurontario Street, Dundas Street, Queen Street, the Highway 407 Transitway, and others.

Similarly, the City of Brampton is currently working to eliminate the floodplain issue in downtown Brampton through Riverwalk, a project estimated to cost over $100 million that will unlock a large area of the downtown currently restricted by the floodplain.

These public sector investments, which is not an exhaustive list of all investment occurring in Peel Region, are significant and will create value through increased demand and rising land values.

Implementing IZ in concert with these investments, like the discussion in 2.4.1, can work to offset some of the impact of an IZ policy.

2.4.3 *Offering Financial Incentives*

As discussed, IZ will directly reduce a project's revenue, which will reduce the amount a developer can afford to pay for land. Financial incentives could be offered to offset this impact, which would decrease development costs. Consider the following hypothetical example:

	Market Project (No IZ, No Financial Incentive)	*IZ – No Financial Incentive*	*IZ - With Financial Incentive*
Revenue	$10M	$9M ($1M less due to IZ)	$9M ($1M less due to IZ)
Development Cost	$5M	$5M	$4M ($1M less due to incentive)
Profit	$1.5M	$1.5M	$1.5M
Residual Land Value (RLV)	**$3.5M**	**$2.5M**	**$3.5M**

As illustrated above, incentives could be offered to offset the impact of providing affordable housing. In situations where land values are strong, incentives may not be necessary as the impact of providing affordable housing can be accommodated through a depressed land acquisition cost and/or one of the non-financial offsets noted previously. However, in situations where land values are already low, financial incentives (or other offsets) may be necessary for IZ to be implemented without negative consequences on the market.

2.4.4 *Considerations for Peel Region*

A key consideration when designing an IZ policy is whether to:

- Not offer any financial offsets to developers, requiring that projects absorb the affordable housing requirement through reduced land values on a forward looking basis;
- Apply or offer additional density above the currently approved zoning in exchange for affordable housing;
- Apply municipal financial incentives or other incentive to the project to offset some of the costs of the affordable housing contribution; or,
- A combination of the two previous bullets above.

Incentivising projects with financial tools can be effective in emerging market locations where inclusionary zoning makes development financially unviable, and/ or where additional development density is less valuable. Determining the most appropriate approach is complicated by the fact that each municipality's housing market is diverse, and each municipality has varying approaches to development planning and municipal finance.

Within the context of this assessment, it is possible that the ultimate approach to an IZ policy will vary in each of the three local municipalities. Across the three municipalities and test locations as part of this research, there are a variety of market conditions that impact the nature of demand; including the type and cost of housing, and level of transit service. This diversity also extends to the relationship between as-of-right planning permissions and achievable density, which can impact land transaction activity and the process for extracting community benefits as part of a development application process. However, there is sound rationale for the municipalities to evaluate and pursue IZ policy implementation simultaneously and collaboratively.

If any of the municipalities chose to provide offsets as part of an IZ strategy, from a municipal finance perspective, the provision of density as an offset approach is likely to be the most sustainable and enduring opportunity to pursue. This is because it would not require that the municipality forego development levies or property taxes that are required to fund growth related expenses. In American jurisdictions where Inclusionary Zoning is more common, it is this trade-off of increased density in exchange for affordable units that has proven successful.

Notwithstanding the above, the analysis in this report is structured to test the impact of potential inclusionary zoning parameters absent financial incentives (other than those which are currently available today). The objective is to test the potential impacts of policy absent these tools, in order to provide a basis of evidence for municipalities to use as they consider potential approaches moving forward.

Assessing IZ absent financial incentives and bonus density is also the most onerous approach to assessing impacts, allowing municipalities the opportunity to consider less onerous implementation options as the policy advances. If the analysis included incentives and bonus density, and a municipality considered removing these prior to implementation, this Assessment Report would need to be updated. Another important consideration and rationale for not including any new financial incentives is that over time, the need for offsets will change. If the market sustains upward trajectory, the need for incentives may diminish. Similarly, because the PMTSA plans have not yet been developed, each municipality does not currently know the as-of-right permissions that might be available and the potential for applying bonus density.

A successful policy is one that strikes a balance with market conditions today and is nimble enough to evolve over time as market conditions evolve.

3.0 Market Assessment

The following section provides an assessment of the rental and condominium apartment market in Peel Region, which forms the basis of the market inputs for the financial model as well as satisfying the requirements of Ontario Regulations 232/18 regarding an assessment of housing supply and market rents/ prices. This section also provides greater context regarding the price of new rental and condominium supply added to the market, which will further frame the affordability challenges facing Peel's low and moderate-income residents as summarized in Section 1 of this report.

3.1 Market Overview

Peel Region is one of the fastest growing urban centres in the Province. These positive conditions are driven by a wide variety of factors such as:

- Migration, both international and migration from within other areas of the Country.
- Strong employment opportunities across a range of employment sectors (e.g. professional office, support/clerical, industrial, creative, institutional, retail, and many others) across emerging and thriving employment nodes (e.g. Airport Corporate Centre, Meadowvale, Bram West, Downtown Brampton, Bolton, Industrial Employment Areas across the Region, etc.).
- Proximity to downtown Toronto, whether for employment or visitation, is another key market characteristic driving demand in Peel Region.
- Peel Region boasts strong accessibility features and is serviced by significant highway access as well as improving transit options. Peel Region is planning for several transit improvements (Hurontario LRT, Dundas BRT) as well as improving GO Rail Transit that will include significant service enhancements such as two-way and all-day GO Service with improved headways.
- Peel Region offers a strong supply of family-oriented housing that is, typically, less expensive than similar options within the City of Toronto and other strong markets in the GTA.
- Peel Region's housing supply is also beginning to diversify with higher density housing forms such as stacked townhomes and apartments that further broaden the type and price of housing for current and future residents.
- Peel Region and each local municipality are also undertaking/experiencing significant City-building projects that could further enhance demand for housing in Peel Region. Such projects include the transit improvements noted above, the Riverwalk and post-secondary expansion project in downtown Brampton, the Lakeview and Port Credit West Village projects in Southern Mississauga, incentive programs targeting affordable housing and office investment in strategic areas, significant master planned developments, greenfield expansion in Western Brampton and Caledon, and many others.

These market forces, combined with a program of public and private investment (e.g. improvements to transit) and attractive lifestyle offerings (e.g. jobs, recreation opportunities and lifestyle amenities) make the Region particularly appealing for a broad range of owner/ renter households, across age cohorts, whether Canadians, temporary residents, or newcomers.

The market across Peel Region is diverse and each local municipality experiences varying levels of demand, pricing, land values, and affordability constraints. Further, each municipality might have different long-term planning and economic objectives, and the opportunity for IZ might not be uniform across all PMTSAs due to a wide variety of issues that will be assessed later in this report. From a macro-level, it is likely that the positive market attributes will continue to drive demand for new housing in Peel Region. As the opportunity to provide new grade-related housing options continue to be exhausted, and the price of these homes continues to increase, Peel's market is likely to continue to shift towards higher density housing formats.

This report, and the data collected, was written during the height of the COVID-19 pandemic. The data reflects September 2020 activity, when many parts of the GTA (including Toronto and Peel Region) were faced with new lockdown provisions extending to the end of December. At the same time, a positive indication that a vaccine would be approved before the end of the year and begin to be administered throughout 2021 was announced.

COVID-19 has undoubtedly impacted the real estate market in Canada over the short-term, however the degree to which the pandemic will have long-term implications on the real estate market is currently unknown. Given the news of a vaccine, in addition to the strong underlying fundamentals of the local markets, it is likely that real estate markets will return to 'normalcy' as public health risks are mitigated/ eliminated. We therefore expect that over time, the market will rebound, and given that IZ is a long-term policy mechanism, implementation of the policy should not be delayed. Notwithstanding the previous point, should the market begin to show lingering negative effects because of COVID-19, the market and financial considerations in this evaluation nay need to be reassessed.

3.2 The PMTSAs Assessed in this Report

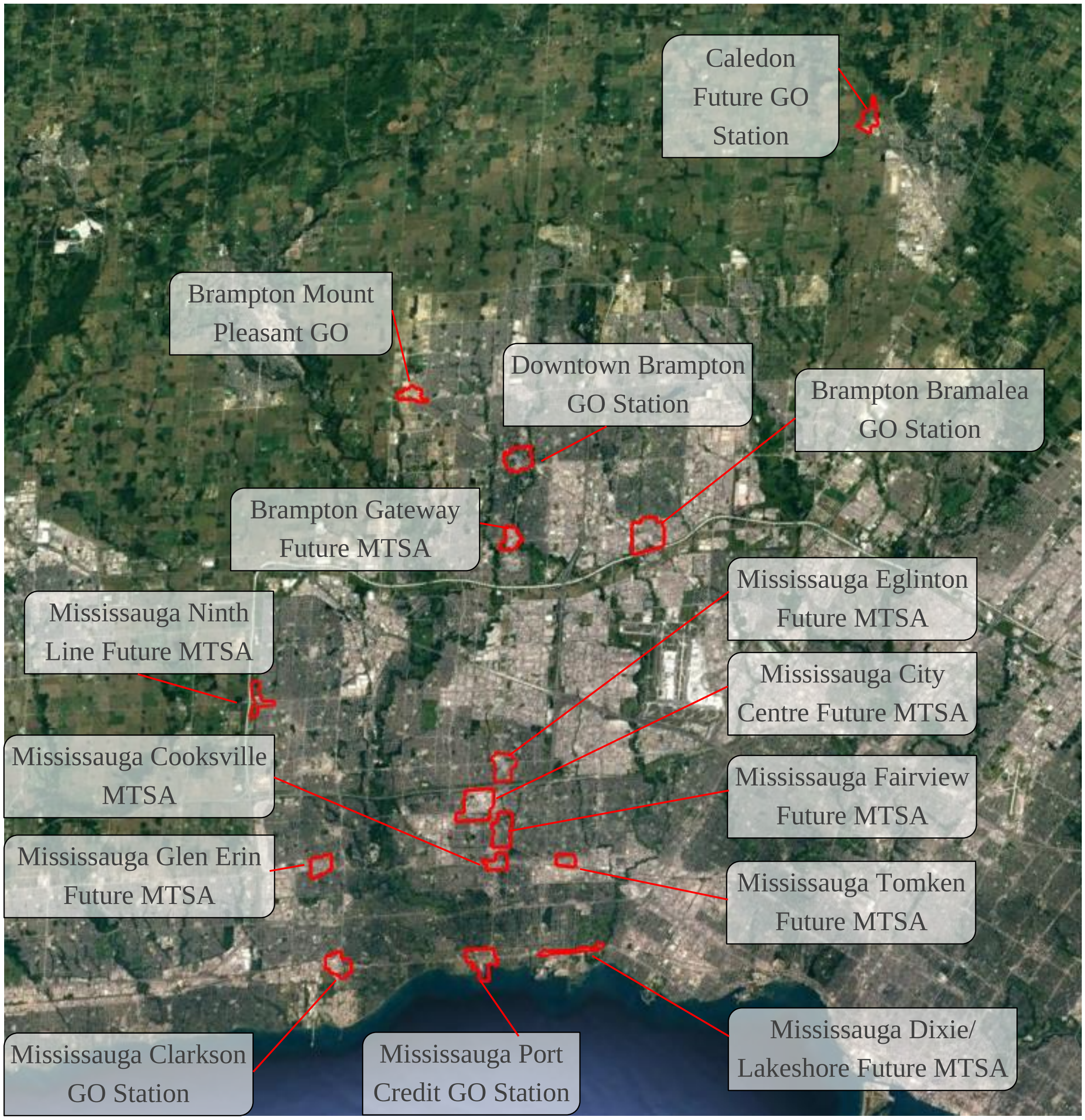
Figure 11 on the following page illustrates the PMTSAs that are assessed in this report. It is noted that some of these station areas exist today, such as the GO Stations in Mississauga and Brampton, whereas some are future station areas associated with future GO Rail expansion, the Hurontario LRT, the Dundas Connects BRT initiative, and other planned transit improvements. These remain preliminary and have not been finalized.

3.3 The Real Estate Market in Peel Region is Diverse

3.3.1 *The Town of Caledon's High Density Residential Market is in its Infancy*

The Town of Caledon is largely a rural community with established community nodes that are continuing to urbanize. The Town remains a low-density residential community where 83% of the total housing stock is within single-detached homes and 96% of all housing is within a low-rise home (i.e. single, semi, townhome). According to Statistics Canada, the Town has 115 apartment units in a building that has more than five-storeys and 395 apartment units in buildings with fewer than five-storeys, representing just under 2.5% of the Town's housing stock. CMHC notes that over the past 20-years, there have been 98 apartment completions in Caledon, with the River's Edge project in Bolton representing 67 of these units. The remaining units are noted to be rental, and likely from second suites or small infill projects (e.g. duplex, basement apartments, small additions, etc.).

Figure 13: PMTSAs in Peel Region Assessed in this Report (preliminary boundaries)



River's Edge is the only apartment building in the Town of Caledon that is condominium in tenure and was developed in 2009. The building is largely targeted to move-down and senior purchasers and is marketed as an adult-lifestyle community. Of note, another condominium building is currently under construction at 50 Ann Street, adjacent to the River's Edge project. This boutique project will contain 73 units within the five-storey building, which is marketing to a wide-range of potential purchasers.

Overall, Caledon’s high density residential market is expected to remain modest over the near to medium-term, where it is likely to continue to be dominated by low-density housing options. As Greenfield and Whitebelt lands continue to be exhausted, the market will begin to shift to higher density housing forms over the longer term. It is also worth noting that Caledon’s real estate market is becoming more expensive, with the average resale home in the Town increasing from $681,250 in 2015 (November Year to Date) to $1.1 million in 2020 (November Year to Date), a 62% increase. Additionally, the average resale price of all homes also increased by 17% over the past year according to TREB MarketWatch.

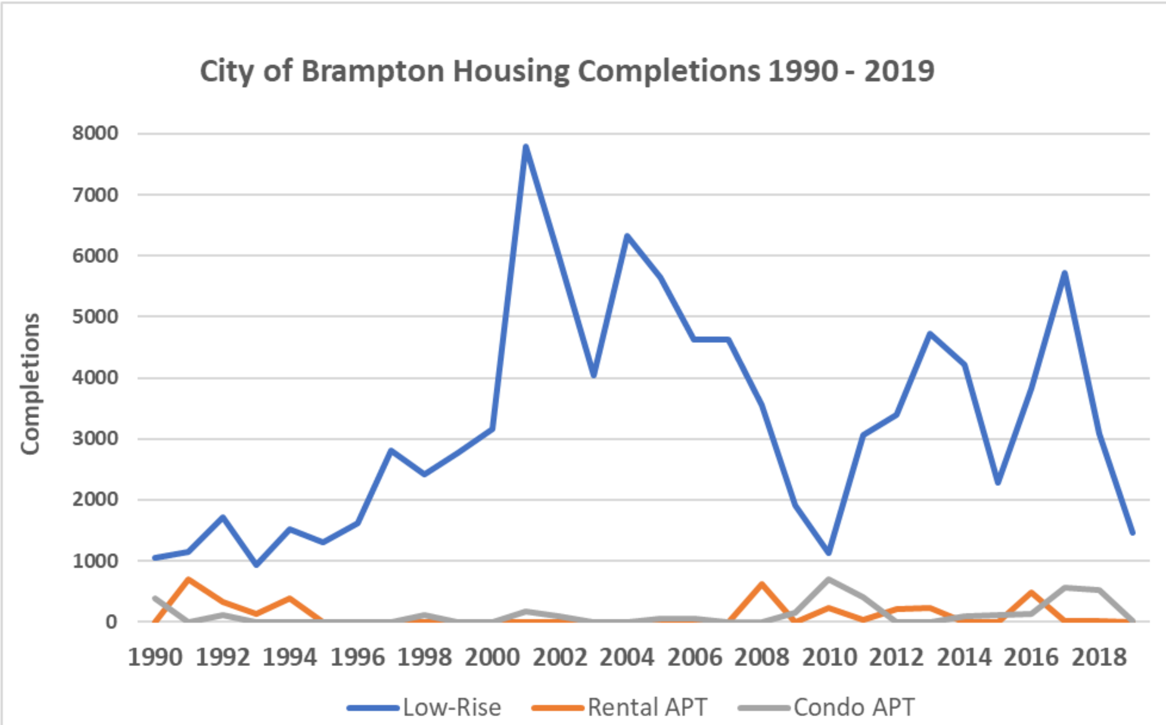
3.3.2 *The City of Brampton’s High Density Residential Market is Beginning to Emerge*

The City of Brampton’s high-density residential market is beginning to emerge and strengthen. Historically a low-density residential community with a relatively high supply of rental apartment buildings constructed many decades ago, Brampton is now beginning to see higher density forms of housing developed with more frequency. This market shift is occurring for several inter-related factors:

- Brampton’s once large supply of vacant greenfield land is quickly eroding, limiting the ability of developers to continue to provide low-density housing types.
- Brampton’s low-rise housing supply is quickly appreciating in value, driving demand for more affordable alternatives such as apartment buildings. The average resale detached home in Brampton has increased from $583,750 in November 2015 to over $995,500 in November 2020, an increase of 71%.
- Affordability issues in other strategic municipalities in the GTHA are also driving demand in Brampton for affordable housing options for families. This increase in demand drives further price growth in the Brampton market.
- Like most areas of the Province, Brampton’s population is aging, driving demand for senior-friendly housing options for those who wish to age within their community.
- Brampton is aggressively pursuing intensification along future transit corridors/stations and growth areas. The “Living the Mosaic – Brampton 2040 Vision” provides illustrations and principals for how Brampton envisions future growth, which is planned to rapidly intensify with higher density housing forms.
- Transit and public realm improvements across the City are also expected to improve demand looking forward.

Over the past 30 years, apartments in the Brampton market have typically accounted for approximately 7% of total housing completions. This has increased to 10% since 2009 and 11% since 2016 (**Figure 14**). Brampton has historically seen more rental housing than condominium, however this trend has shifted, with condominiums accounting for over 70% of all apartments built in Brampton over the past ten years.

Figure 14 (data from CMHC)



Reviewing the supply of high-density residential development over the past twenty years, Brampton's market has primarily been concentrated in a select few nodes (**Figure 15**):

- **Mount Pleasant:** Mount Pleasant has seen high-density growth around the Mount Pleasant GO Station, which includes multiple apartment buildings within the Mount Pleasant community as well as several marketing projects and development applications. There are three new high-density projects currently marketing in the area.

- **Downtown Brampton:** Development in Brampton's downtown has been challenged by the presence of the floodplain as well as the small parcel fabric and heritage characteristics in the area. Notwithstanding this, there have been five high-rise projects to launch in the downtown over the past two decades (1 rental, 4 condo), and the floodplain issue is projected to be mitigated by 2025 through the Riverwalk project. There is one project currently marketing in the area. Of note, the City currently offers incentives (development charge reduction) to qualifying projects in the downtown and Central Area (Downtown and Queen Street corridor to Highway 410).

- **Rosedale Village:** This is a retirement community built in North Brampton that has been under development since the 1990s. It contains a mix of low and high-density homes, a community centre, golf course, and other amenities designed to appeal to seniors. A range of phases are still to be accommodated at the property. Almost 400 apartments have been constructed at this location over the past 20 years.

- **Bram East:** Bram East has attracted six high-rise apartment buildings since 2004. This area has successfully captured senior housing demand as well as demand from a wide variety of purchasers that are attracted to the strong highway access and natural areas that are within a short walking distance.
- **Bramalea:** There has also been some rental investment near Bramalea GO Station (Compass Apartments) and near the Bramalea City Centre (Cityview Apartments). Employment Land designations have limited further residential development near the GO Station.

Brampton has experienced around 233 apartment unit completions per year on average since 1990, and 372 apartment completions on average since 2010. While some of this activity is attributed to the Rosedale Village retirement community, Brampton is clearly gaining market momentum in the high-density market. It is our opinion that moving forward, Brampton should continue to experience an increase in demand for new condominium and rental housing. Brampton's real estate market is also becoming more expensive, with the average resale home in the City increasing from $489,000 in 2015 (November Year to Date) to $835,000 in 2020 (November Year to Date), a 71% increase. Additionally, the average resale price of all homes increased by 15% on average over the past year according to TREB MarketWatch.

3.3.3 *The City of Mississauga's High Density Residential Market is Well-Established and Continuing to Strengthen*

Unlike Brampton and Caledon, the City of Mississauga is an established high-density market that has emerged as one of the strongest markets in the GTA. As illustrated by **Figure 16**, the Mississauga market has begun to supply fewer low-rise homes (single, semi, townhomes) as the supply of greenfield land continues to extinguish, resulting in a decrease from the high of 5,482 low-rise homes in 2002 to only 213 in 2019. The market has responded by increasing the supply of apartment units, which since 2006 has been the most common housing type added to the market almost every year. Since 2006, Mississauga has accommodated nearly 18,000 apartments and only 12,000 low-rise homes. Condominium units in particular have been popular, with rental units accounting for only 5% (960 units) of the total apartment completions since 2006.

Given the strength of the market and high number of completions, Mississauga has more varied locational development patterns than Brampton and Caledon. Notwithstanding this, the following notable trends are observed:

- Over the past twenty years, there have been around 100 new apartment projects across the City. Of this, over half (53) have been within, or in very close proximity to Mississauga City Centre and along the Hurontario corridor. These typically have included some of the largest and most expensive condominium projects in the entire City.
- Many projects have located in the Erin Mills neighbourhood, which includes both mid and high-rise apartments as well as stacked townhome development.

Figure 15: Brampton High Rise Development Summary – Built Projects Over the Past Twenty Years (Illustrates the majority of, but not all market activity)

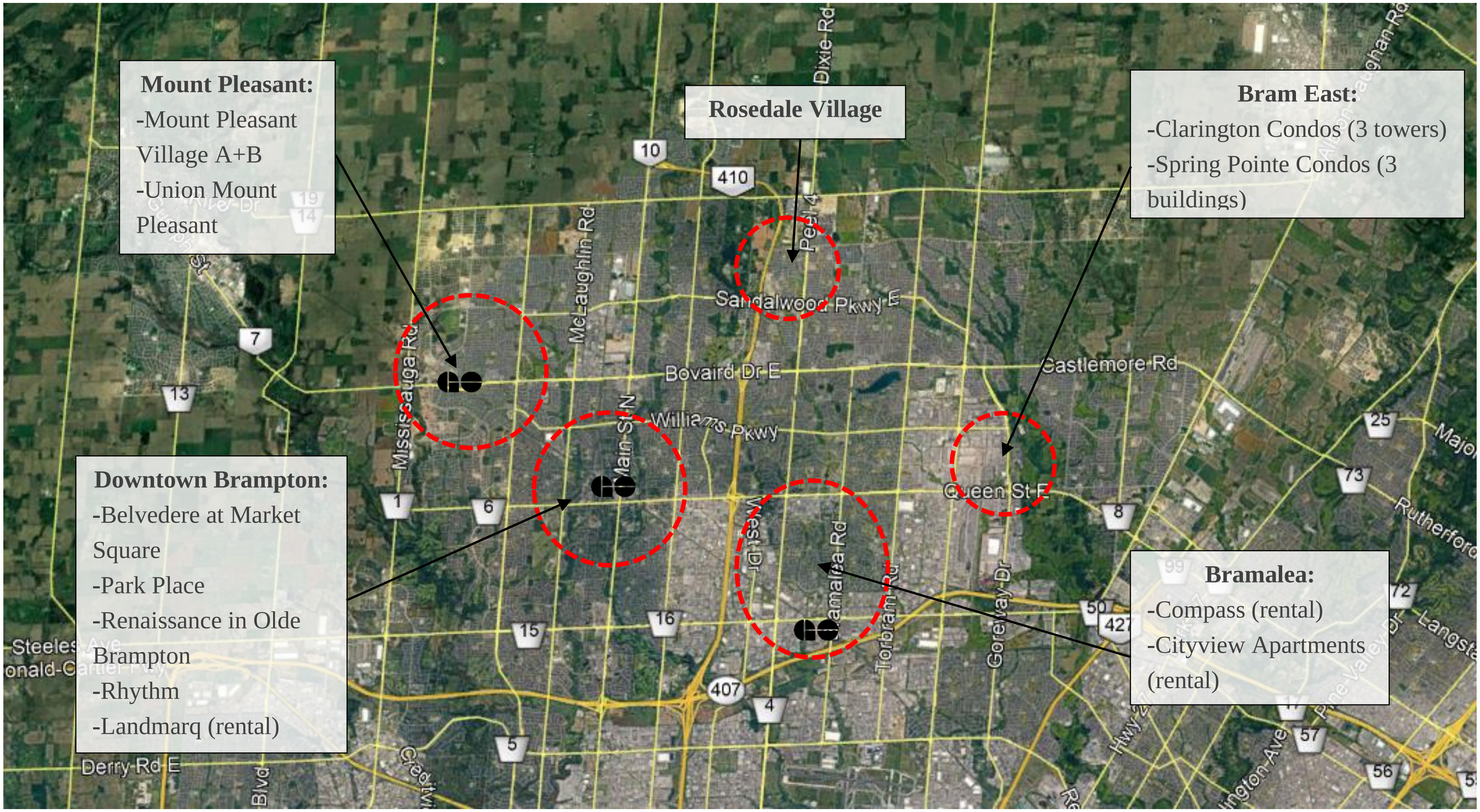
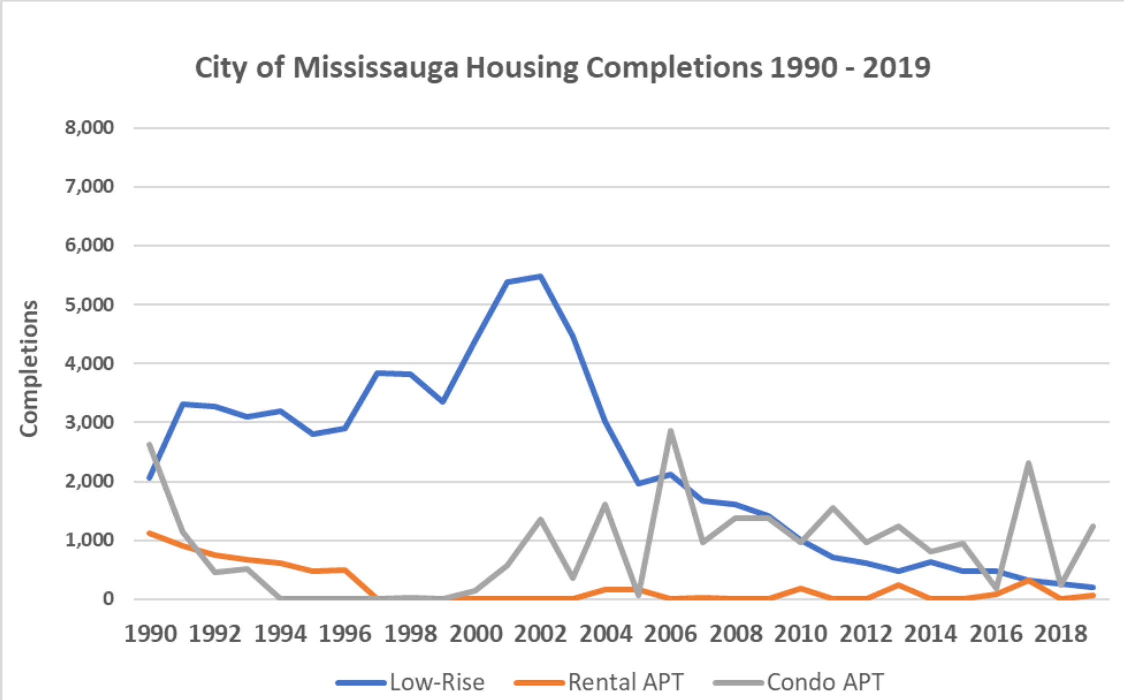


Figure 16 (data from CMHC)



- Another seven projects have located in the Port Credit neighbourhood, which has typically accommodated smaller scale buildings relative to Erin Mills and Mississauga City Centre, but often some of the most expensive projects in the City.
- As noted, rental development has been modest in the City in recent years. The three most recent projects have located in Erin Mills (Skyrise – 323 units – 2016), East Mississauga (Bridgewood Suites – 72 units – 2015), and Cooksville (The Huron – 80 units – 2020).
- Of particular interest, outside of Port Credit, there has been limited activity adjacent to the City's GO Stations. This is likely due to the policy/physical context around many of these stations (i.e. Employment Areas, low-rise residential, natural areas, etc.) as well as market demand in Mississauga being concentrated in Mississauga City Centre (future Hurontario LRT) and other key nodes.
- There are 23 projects actively marketing in the City of Mississauga, with most activity concentrated in downtown Mississauga and the Hurontario corridor.
- Stacked townhomes are also becoming a popular housing option in Mississauga, as developers are responding to demand from families that desire a ground-oriented home at a more attainable price. The western end of Mississauga has become popular for this housing choice, however infill stacked townhome projects are common throughout the City.

Overall, the City of Mississauga's high-density market is well established. Like the City of Toronto, Mississauga appears to be attracting demand from a wide range of purchasers and tenants (e.g. professionals, couples, seniors, move-down purchasers, families, recent immigrants) as well as a strong investor market. The investor market is evident in areas like Mississauga City Centre, where condominium units are being purchased and rented to tenants through the private rental market in response to a lack of new rental supply (Mississauga rental vacancy rate was 1.2% as of the 2019 CMHC Rental Survey).

Mississauga's real estate market is becoming more expensive, with the average resale home in the City increasing from $547,500 in 2015 (November Year to Date) to $882,000 in 2020 (November Year to Date), a 61% increase. Of note, the average resale home also increased by 16% on average over the past year according to TREB MarketWatch.

3.4 The New Condominium Market is Strong, Albeit Varied Across the Region

As summarized in the figures and tables in **Appendix A**, Peel's new condominium apartment and stacked townhome market is varied across the three municipalities. This data will be used to inform the inputs utilized in our financial analysis as well as to frame the characteristics of Peel Region's new condominium housing supply.

Caledon currently has one actively marketing project as identified in the previous section, which is located next to the Town's only existing condominium apartment. The 50 Ann Street building began sales in February of this year and is currently 45% sold as of NBLC's September survey. Pricing for the project averages around $720 per square foot, with one-to-three-bedroom units ranging in price between $500,000 and $880,000.

Within Brampton, the market has continued the trends discussed in the previous section, with most new condominium apartments being in Mount Pleasant (three of the five active projects) as well as one in downtown Brampton and another on Steeles Avenue near the highway 410 interchange. Interestingly, pricing in the Brampton market appears to have accelerated, with the three most recent project launches accommodating pricing near or exceeding $800 per square foot. This compares to pricing in the mid to high $600 per square foot range only two years ago. The pricing increase has also been met with strong demand, with all three projects (Mont Vert – N and S Tower in Mount Pleasant and Stella at Southside on Steeles Avenue) experiencing strong absorption above ten sales per month (per project). All three of these projects have been securing sales during the COVID-19 pandemic at a pace that resembles normal market conditions (e.g. large number of sales in the first few months, slower but steady sales after this point).

Mississauga has a large supply of actively marketing condominium apartment projects (23) and stacked townhome projects (9). As expected, Mississauga's new supply is the most expensive in Peel Region, averaging over $950 per square foot on average for the remaining unsold units. Like Brampton, historical development patterns appear to be continuing, with high-rise apartments being heavily attracted to Mississauga City Centre, the Hurontario Corridor, and Port Credit. Pricing is most expensive in these locations, with the two latest projects at Mississauga City Centre launching with prices above $1,000 per square foot, and currently over $1,100 per square foot for unsold units. Pricing in Port Credit and the surrounding area illustrates similar pricing levels. Absorption levels in the Mississauga market also indicate strong demand, with projects selling on average 18 units per month across the projects surveyed. Many of the projects have also been successfully selling units throughout the COVID-19 pandemic, with several launching during the pandemic (including the Brightwater 2 development on Mississauga's waterfront that sold out in the first month of sales – September 2020). Smaller scale projects are also observed across the City, including stacked townhomes.

3.5 Rental Demand is Strong

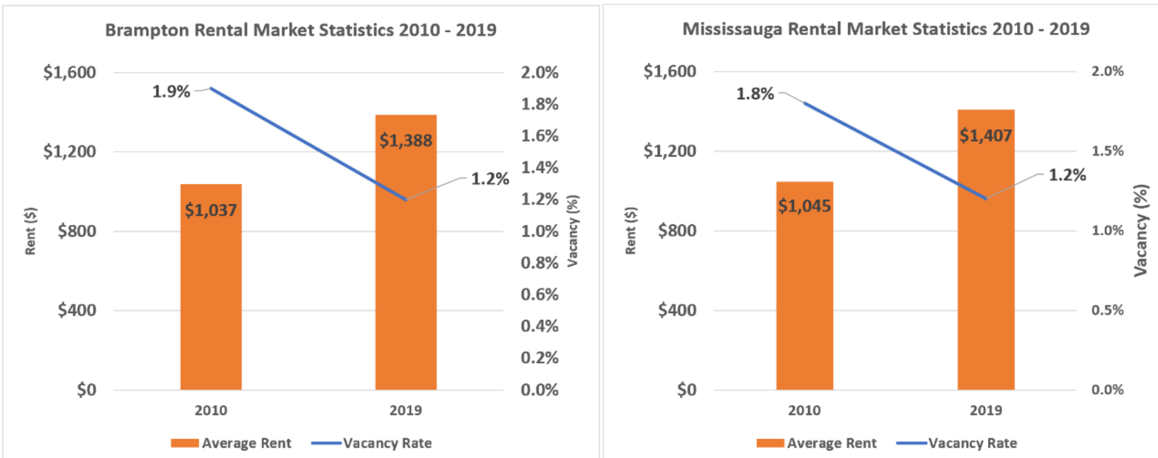
Rental demand also appears strong across Peel Region, where there is a vacancy rate of only 1.2% as of the 2019 CMHC rental survey. A healthy vacancy rate is usually cited as being within the 3% - 5% range, and Peel has been below this threshold for well over a decade. A low vacancy rate limits choice in the market for interested households, which presents the market condition for landlords to increase rents above inflationary levels due to the imbalance between supply and demand. The lack of rental housing being brought to market in Peel Region (as discussed in Section 3.3) is due to many factors but is largely attributed to the popularity and attractiveness of condominium development as an investment option relative to rental housing. In Peel's market, developers seek to build and sell condominium units to a range of purchasers that includes investors, who will then rent condominium units on the private market to prospective tenants. The investor condominium market has therefore largely fueled the new rental supply in Peel Region, rather than purpose-built rental apartments.

These conditions appear to be playing out in Peel Region. As illustrated by **Figure 17**, the rental market in both Mississauga and Brampton has been experiencing price growth and shrinking availability (Caledon data is suppressed due to lack of supply). The average rental rate of all apartments in the Mississauga and Brampton market have increased by approximately 35% since 2010, with both also experiencing a sharp decline in vacancy. Over this period, Brampton has added 1,185 new rental apartments to the market (118 units a year on average) and Mississauga has added 922 new rental units (92 units a year on average). Despite condominium apartments accounting for some new rental supply through the private market, this supply is simply not enough to keep pace with demand.

In addition to these high-level observations, which includes the entire rental universe (e.g. new and old, newly listed units and tenants living in rent-controlled units for many years, strong and weak market areas, etc.), the supply of new rental apartments in Peel Region are priced at a premium as permitted by the interaction of supply and demand. The figures and tables in **Appendix A** illustrate the high-level results of our rental survey, which included purpose-built rental apartments and private condominium rentals within buildings built after 2002.

Like the condominium apartment market, Peel Region's rental market is also diverse. Rental rates for modern (i.e. recently built) apartments in Brampton and Caledon tend to be in the \$2.50 to \$2.80 per square foot range, whereas most areas in Mississauga are observed to charge above \$3 per square foot. The most expensive market areas are Mississauga City Centre, the Hurontario corridor, and Port Credit, which are driven by the same factors driving the strong condo market in these areas. Mississauga has also seen limited purpose-built rental apartments in recent years, however the three projects surveyed by NBLC (all built after 2015) are experiencing very strong pricing levels.

Figure 17 (CMHC Rental Market Data)



Our rental survey also indicates that the new purpose-built rental apartments have an average vacancy rate of just under 4%. While this vacancy rate remains within the healthy range, it is higher than the macro data from CMHC would suggest, which is likely an impact of COVID-19. Notwithstanding this, pricing within these buildings, and the private rentals in condominium buildings, remains strong and well above the averages noted by CMHC. As referenced in **Figure 17**, CMHC notes the average market rent in Mississauga to be $1,400 per month, which compares to $2,180 per month within the purpose-built rental supply and approximately $2,300 in the private condominium supply.

Overall, these market observations indicate that the entire rental supply is becoming more expensive every year, and the new supply (purpose-built rental and condominium rentals) are accommodating rents well above the average, which is a logical finding given that these are modern buildings locating in the Region's strongest market areas.

3.6 Development Applications Point to Demand for Transit Supportive Locations

NBLC has scanned high density residential development application activity (apartments and stacked townhomes) across the three municipalities. As illustrated by **Figures 18** and **19**, most of these applications are within or closely adjacent to the identified PMTSAs.

There are over 23,391 apartment and stacked townhome units proposed in Mississauga, of which nearly 80% are located within an existing or planned PMTSA. Apartments represent over 93% of the proposed high-density residential applications, with the vast majority being located within the downtown and along the Hurontario corridor. Major applications outside of the PMTSA areas are also noted, which includes the Inspiration Lakeview property, Port Credit West Village, major commercial redevelopments, stacked townhome projects in more residential contexts, and several others. Overall, the market appears to continue to favour the market areas that have historically attracted significant market attention, in addition to a renewed focus on transit-supportive locations such as the future Hurontario LRT and transit service level enhancements at the City's GO Stations.

Within the City of Brampton, there are approximately 5,000 apartment and stacked townhome units proposed. Of the apartments, which account for 3,500 of the proposed units, over 62% are located within an existing or planned PMTSA. Only about 22% of stacked townhome units are proposed within a PMTSA, with the majority being attracted to Brampton's greenfield lands and other lower density residential infill opportunities. As illustrated by **Figure 19**, there is a large concentration of proposed apartment activity within the downtown and central Queen Street Corridor, within and adjacent to Mount Pleasant, and in the eastern end of the Queen Street corridor near Highway 427. In addition to this, there are major applications at Brampton's Shoppers World, other commercial property intensification outside of PMTSAs, and within Brampton's Greenfield context at the western and northern ends of the City. Overall, Brampton's high-density residential market appears to be strengthening as evidenced by the large supply of activity, with most proposed development being attracted to central locations that will be serviced by proposed transit service as well as improved transit service at existing GO Stations. Given the current industrial land use context, there are no applications at Bramalea GO Station.

The Town of Caledon has 245 apartments and 35 stacked townhomes currently proposed. All of this activity is currently proposed outside of a PMTSA. Aside from a few small-scale applications in Bolton, the majority of proposed high-density residential activity is within large-scale master plans consisting of low-density housing, typically with an apartment component as one of the later phases. There is no activity within the PMTSA we have assessed for this assignment, given the lack of planning permissions at the current time.

As illustrated by **Figures 18** and **19**, some of the PMTSAS are subject to major development applications, which would appear to exempt (or partially exempt in the case of multi-phased master plans) these properties from a future IZ policy as required by the Provincial Regulations.

3.7 Impact of COVID-19 on the Real Estate Market

As stated at the beginning of this section, NBLC's market survey was completed during the COVID-19 pandemic and therefore somewhat reflects the impact to the market. Overall, we have observed that average resale home prices in each of the three local municipalities have increased by over 10% between November 2019 and 2020, indicating that real estate values have continued to rise during the pandemic. Over the same period, resale condominium apartments in Brampton have increased by 9%, but decreased in Mississauga by 1.3% (data was unavailable in Caledon due to lack of supply).

Figure 18: High-Density Residential Development Applications in Mississauga (Source: Peel Region)

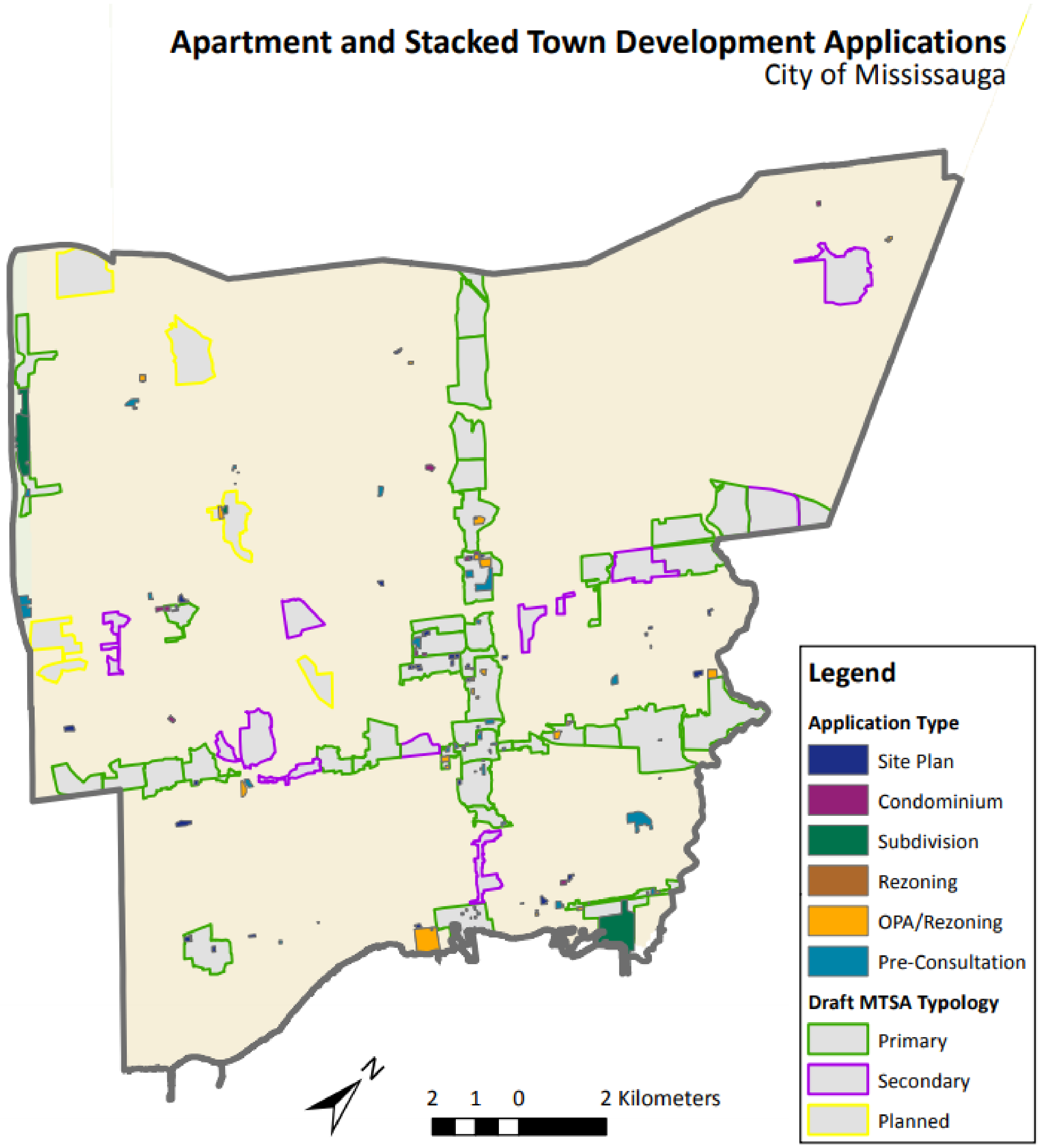
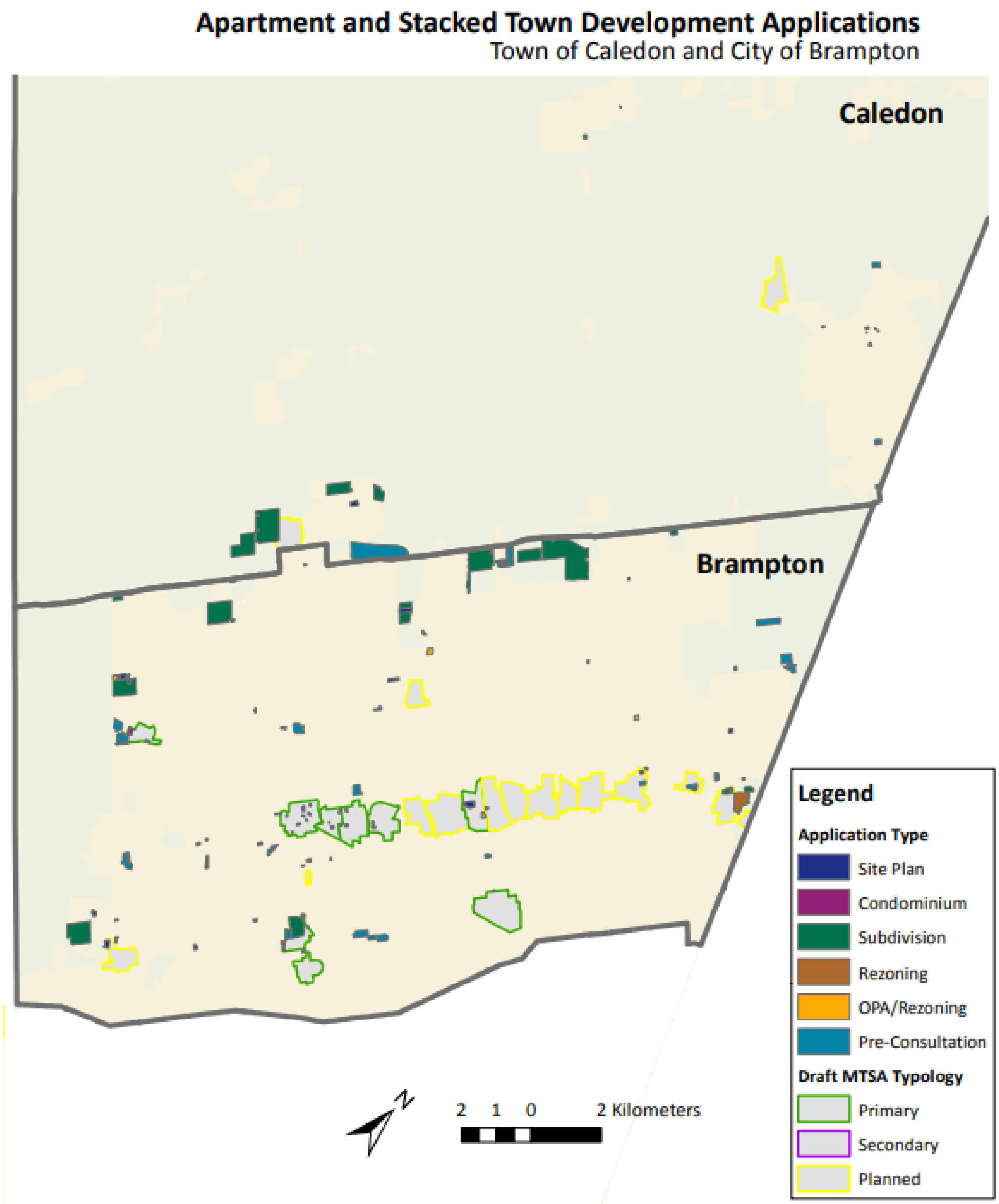


Figure 19: High-Density Residential Development Applications in Caledon and Brampton (Source: Peel Region)



Notwithstanding the above, actively marketing high-density residential projects appear to be appreciating as evidenced by price growth in the Brampton market explored earlier in this section as well as Mississauga City Centre experiencing price growth from $806 per square foot in November 2019 to $925 per square foot on average in November 2020[1].

COVID-19 has had more punishing impacts on the retail market as consumers have continued to shift shopping patterns online. While the retail sector has been declining for some time, COVID-19 does appear to be accelerating this trend. This impact could leave many retail sites struggling with vacancies and declining rents, which could accelerate a shift to intensification and redevelopment. If true, the opportunity for IZ at these locations could improve as the land value of these retail properties decrease.

Although the full extent and length of COVID-19's impact remains unknown, it is likely temporary. We are aware of developers pushing back launch dates for new projects and that the pace of construction has slowed. With launches delayed and prospective buyers – domestic and foreign – continuing to self-isolate and social distance, sales in the active and resale markets have slowed and could continue to do so in the coming months.

Though we have not lived through a pandemic similar to the current crisis, we can look to the 2008 financial crisis to gain some understanding of how COVID-19 may impact the market. At the time, the local new high-rise real estate market was shut down for all intents and purposes. Launches were delayed, some projects were cancelled, and buyers, for the most part, stayed away. However, pricing in both the ownership and rental housing markets were not measurably impacted. Very little new rental product was in the market and vacancy rates remained incredibly tight. By the spring of 2009 confidence had been restored in the banking system and, driven by strong market fundamentals, the new sale and resale market regained its pre-recession strength. The following two years – 2010 and 2011 – set two of the three highest marks for new high-density residential sales on record at that time, along with steadily increasing pricing, while the purpose-built rental market continued to see declining vacancy rates and increasing pricing, spurring on new development interest.

Like with the recession a decade ago, the economy will eventually shed the effects of the pandemic. During this period there will naturally be softness, as all market participants including buyers/tenants, government staff and lenders all recuperate, re-assess their positions and adjust strategies. As the post COVID-19 economy emerges, we expect that the fundamentals that underpinned the strong housing market will similarly underpin the market's recovery. COVID-19 impacts may cause some buyers to delay or defer home purchases which should divert demand to the already strong rental sector.

[1] Mississauga City Centre November 2019 and 2020 Altus New Homes High Rise Submarket Report

Overall, a continued low interest rate environment, the highly diversified workforce, high levels of pent-up demand, a forecast for a strong economic recovery – combined with international recognition for Canada's management of the pandemic – bode well for continued and sustained demand for housing in the GTHA.

4.0 The Conceptual Inclusionary Zoning Policy

The following Section assesses the planning policy context for affordable housing in Peel Region and frames the IZ framework assessed in this analysis.

4.1 Planning Policy Context

The following is a high-level discussion of the policy context applicable to all municipalities under study.

4.1.1 *Provincial Policy Statement (2020)*

The Provincial Policy Statement (PPS, 2020) builds on earlier versions of the PPS with a renewed emphasis on increasing housing supply, supporting job creation, and reducing red tape. The PPS directs municipalities to support housing affordability across the housing continuum by planning for a supply of land to develop a full range of housing types through both intensification and greenfield development. Specifically, the PPS requires and enables municipalities to maintain a supply of designated, available, and serviced lands for residential development to ensure that housing supply can come online to meet demand. Municipalities are to use market-based approaches to plan for the appropriate range and mix of housing types, options and densities, including affordable housing, to meet the needs of existing and future residents.

The PPS defines affordability according to the ability of low- and moderate-income households to pay for housing. It requires upper-tier municipalities to establish and implement targets for new affordable units that align with Housing and Homelessness Plans. The PPS aims to ensure there is adequate land supply and that land use planning is connected to the needs of citizens and the market. However, Inclusionary Zoning is the only planning tool that can require affordable housing to be delivered by the private sector, supporting the affordability objectives of the PPS. The PPS defines affordable housing as:

> *a) in the case of ownership housing, the least expensive of:*
>
> > *1. housing for which the purchase price results in annual accommodation costs which do not exceed 30 percent of gross annual household income for low and moderate income households; or*
> >
> > *2. housing for which the purchase price is at least 10 percent below the average purchase price of a resale unit in the regional market area;*
>
> *b) in the case of rental housing, the least expensive of:*
>
> > *1. a unit for which the rent does not exceed 30 percent of gross annual household income for low- and moderate-income households; or*

2. a unit for which the rent is at or below the average market rent of a unit in the regional market area.

4.1.2 *A Place to Grow: Growth Plan for the Greater Golden Horseshoe (2019)*

A Place to Grow: Growth Plan for the Great Golden Horseshoe (P2G) provides additional provincial vision and policy for the Greater Golden Horseshoe. Key principles that affect housing affordability include:

- Building complete communities;
- Supporting economic and employment opportunities;
- Supporting a range and mix of housing options, including additional units and affordable housing, to serve all sizes, incomes, and ages of households by increasing housing diversity
- Integrating land use and infrastructure planning; and,
- Providing for different approaches to manage growth that recognize the diversity of communities in the GGH.

Key polices in service of affordability objectives include:

- Minimum intensification and density targets;
- Specific density targets for PMTSAs, depending on the type of transit;
- Requiring municipal affordability targets as in the PPS, and the identification of planning and financial tools to achieve these targets; and,
- Aligning land use planning with Housing and Homelessness Plans.

P2G forecasts population within Peel Region to increase to 2.28 million by 2051. The municipalities' plans to accommodate this increasing need for housing are outlined in Regional and local Official Plans.

4.1.3 *Regional Official Plan*

The Region of Peel Official Plan (ROP, 2018) sets out a vision and high-level planning framework for the municipalities of Brampton, Mississauga, and Caledon. It translates the population and employment forecasts of P2G into municipal forecasts. The ROP undertook a Municipal Comprehensive Review (MCR) that assessed the population and employment forecasts to 2031 (subsequent reviews will consider the new projections to 2041 and 2051) and allocated these projections to each local municipality. The MCR included a detailed analysis forecasting the number, type and location of new units required by 2031 considering population growth, past trends, demographic changes, changing household formation rates, affordability considerations, the role of the existing housing stock in meeting new needs, and the PPS and P2G policies in effect at the time. The forecasted housing range and mix is not included in policy, instead area municipalities are directed to provide an appropriate range of housing in terms of form, tenure, density and affordability to satisfy the various physical, social, economic and personal support needs of current and future residents. Specifically, policy 5.8.2.3 states:

> *Encourage and support the efforts by the area municipalities to plan for a range of densities and forms of housing affordable to all households, including low- and moderate-income households, enabling all Peel residents to remain in their communities.*

Peel's Regional Official Plan, and each Local Official Plan, is planning for the below mix of housing types over the forecast period:

Table 1 (Tables 3 and 4 from the ROP)

Table 3: Population, Household and Employment Forecasts for Peel[1]

Municipality	2021			2031		
	Population[2]	Households	Employment	Population[2]	Households	Employment
Brampton	635,000	184,000	280,000	727,000	214,500	314,000
Caledon	87,000	28,000	40,000	108,000	33,500	46,000
Mississauga	768,000	253,000	500,000	805,000	270,000	510,000
Peel	**1,490,000**	**465,000**	**820,000**	**1,640,000**	**518,000**	**870,000**

Table 4 – Annual Minimum New Housing Unit Targets in Peel

	Social Housing	Affordable Rental	Market Rental and Affordable Ownership	Market Ownership
Peel	17%	3%	35%	45%

Affordability is encouraged through targets in the ROP and Housing and Homelessness Plan, the upcoming Peel Affordable Housing Financial Incentives Pilot Program, the redevelopment of Peel Living social housing sites, prioritizing Regional and Local Municipal land for the provision of affordable housing, and advocating for the use of Inclusionary Zoning (ROP policy 5.8.3.2.5). Density targets for the Urban Growth Centres, PMTSA, and Urban Designated Greenfield Area lands require higher density housing forms that can be more affordable than ground-related options.

The ROP is currently under review. This update will bring forward a plan for the 2051 planning horizon including a Regional structure, as well as new housing targets that are consistent with the Housing and Homelessness Plan. Importantly, it will precisely delineate PMTSA boundaries and allow the municipalities to bring forward plans for the area, a requirement for IZ to be implemented. This work is not yet complete.

4.1.4 *Local Official Plans*

Each of the local municipal plans allocate growth projected by the Province and Peel Region by permitting a wide range of housing types and densities throughout the City. Intensification and growth are planned within key nodes and corridors as well as offering growth opportunities in greenfield lands where available. All three municipalities also support growth objectives by offering incentives to achieve targeted outcomes where market failures prevent implementation (e.g. Mississauga downtown office CIP, Brampton Central Area CIP, Caledon CIPs). Each municipality is also supporting growth around current and future transit stations and corridors through the implementation of PMTSA plans and supporting policies that implement the direction of Provincial policy.

Affordability is also encouraged in each local municipal plan:

- Brampton encourages affordable housing through Policy 4.2.5 of the City's OP. This policy encourages the creation of affordable housing (but does not require it), considers alternative development standards for affordable housing, and considers housing strategies and targets for affordable housing. Brampton is also currently preparing a housing strategy.
- Caledon recognizes the need to create opportunities for a diverse range and mix of housing types, densities, and tenure to provide for the current and future needs of a diverse population. The housing policies in the OP reflect the unique nature of the Town of Caledon's rural-based community as well as acknowledge the pressures of a transitioning urban landscape. With changing demographics and an increasingly diverse population, Caledon is seeking unique solutions to address housing needs for all income levels including affordable and special needs housing.
- Like the Peel, Brampton, and Caledon OP, Mississauga encourages the creation of affordable housing by planning for a sufficient supply of land for residential development and establishing a planning framework that supports a range of housing types and densities. In addition, Mississauga also protects existing rental properties from demolition, requests that developers provide affordable housing in new development from a Housing Report Terms of Reference, and a commitment to work with the Region of Peel on a Housing Strategy to identify targets and options for the creation of affordable housing.

4.1.5 *Policy Context Conclusion*

While the PPS, P2G, Regional and local Official Plans all set vision and objectives for housing affordability and include policies to enable and encourage housing affordability, and mitigate the loss of existing affordable housing stock, there are no routine and actionable policies that effectively require affordable housing or a particular tenure to be developed as part of private market development. The provincial framework for IZ provides this regulatory opportunity for the first time. Inclusionary Zoning therefore could assist each municipality with achieving affordable housing objectives, in concert with initiatives already under way (e.g. Incentive Program, Peel Housing Master Plan, Municipally owned land, etc.).

The density targets mandated for each PMTSA must also be accounted for when these plans are developed, which are required prior to IZ being implemented. Of note, the PMTSA plans are not yet complete and have not been seen by NBLC.

4.2 The Conceptual IZ Policy Assessed in this Analysis

This analysis is intended for information purposes as the municipalities consider a policy response to Provincial IZ regulations. Therefore, while the ultimate policy has yet to be determined, this analysis establishes conceptual approaches to test the financial feasibility of inclusionary zoning under the current policy framework and without financial offsets. However, many of the PMTSAs will experience other offsets, such as the granting of residential permissions where not currently allowed (e.g. Caledon, Bramalea GO Station), density permissions above current as-of-right zoning, and transit improvements. Many of the assumptions (built-form, pricing, etc.) assumes that these areas would be redesignated and built-out within a mixed-use context (i.e. not a single residential tower within an industrial context at Bramalea GO Station).

To undertake our assessment, we assume, as a base case, the following potential IZ response, which was selected by the municipalities based on the affordability gaps identified:

- IZ requirements are calculated as a percentage of the net saleable gross floor area (GFA – net to gross efficiency of 83% is assumed, see **Table 5** for all assumptions) in a development, referred to as the "set-aside rate". This analysis tests a set-aside rate of 10% for both condominium and rental development, where 10% of a building must be provided at affordable rates.

- At the current time, it is not believed that IZ can require that affordable units be provided in a specific tenure. As such, this analysis assesses the impact of providing affordable rental and ownership homes to satisfy IZ.

- Affordable rental units are tested in both market condominium and market purpose-built rental developments. The affordability level is set to 100% of CMHC's average market rent (AMR) for each local municipality[2]. **Table 2** identifies the AMR rates used in the testing.

Table 2

CMHC Average Market Rent (AMR)			
Suite Type	**Caledon[1]**	**Brampton**	**Mississauga**
1B	$1,291	$1,274	$1,297
2B	$1,460	$1,447	$1,466
3B+	$1,588	$1,537	$1,606
1. The AMR of Peel Region is used for Caledon; Source: CMHC 2019 Rental Market Report			

- We test two lengths of affordability of rental units. First, affordability over a limited 25-year timeline, after which units may shift to market rates at tenant turnover. To simulate this, and quantify the eventual transition to market rental rates, the financial model estimates the value of affordable rental rates by calculating the present value of the affordable rental cash flow over

[2] Due to a limited number of purpose-built rental projects in Caledon, CMHC does not report AMR for Caledon. In this study, the AMR of Peel Region is used for Caledon.

the 25-year period of affordability, adding that to the present value of those units as market rental suites after 25-years of discounting. We also test a scenario where affordability in perpetuity is required.

- IZ units provided in affordable ownership format is only tested in condominium apartment developments, with the assumption that a purpose-built rental developer would not opt to satisfy the IZ requirement with affordable ownership units. The affordable ownership units are tested with the following price ceilings:
    - $294,634, the top of Peel's 4th income decile, for one-bedroom units;
    - $356,707, the top of Peel's 5th income decile, for two-bedroom units;
    - $423,038, the top of Peel's 6th income decile, for three-bedroom units;
- Given that the model is from a developer's perspective, in affordable ownership tests, units are assumed to be affordable to their initial purchasers. Any policies to ensure affordability for subsequent purchasers would not affect a developer's proforma. However, there may be implementation approaches that ensure units remain affordable in perpetuity (i.e. an approach similar to the Whistler Housing Authority – see example to follow).
- Both the affordable rental and ownership rates identified for testing are well below the market rates supplied through new housing as identified in Section 3 and Appendix A of this report and directly correspond to the affordability needs identified in Section 1 of this report.
- In both affordable rental and affordable ownership scenarios, we assume that the developer is required to maintain an identical suite size and unit mix for both the market and affordable components of the building.
- It is also assumed that the parking ratio is the same for market and affordable units. The price/rent for parking spaces is kept the same for buyers/renters of affordable units and market units.
- The model assumes current municipal fees, and where applicable, current incentives (i.e. Brampton Central Area CIP) remain in place. No other financial incentives are included in the model.

Example: Permanent Affordable Ownership, the Whistler Housing Authority

The Whistler Housing Authority (WHA) was established to ensure that a large proportion of Whistler's current employees and retirees can live in that same community, where real estate values are high. The WHA owns units that can be either owned or rented, but the most outstanding success of the municipally-owned corporation has been its ability to maintain permanent affordability throughout its ownership housing stock.

The key to the WHA program is maintaining a waitlist of qualified potential purchasers and the implementation of caps on resale values. The WHA ensures that at turnover, new buyers are taken from that same waitlist. The appreciation of resale value is linked to a preestablished index ensuring perpetual affordability. The WHA calculates the maximum resale value on these resale restricted units using either the Bank of Canada prime lending rates, the Greater Vancouver Housing Price Index, or most commonly, the Canadian Consumer Price Index.

The WHA model is one of the few affordable ownership housing models where units are held at below market rates in perpetuity. Most other programs offer one-time affordability. The WHA owns more than 1,900 units.

5.0 Approach to Assessing Impacts

The following is a discussion of the key issues that guide our methodology for testing impacts. This section also summarizes the study areas and key assumptions associated with the financial analysis.

5.1 Introduction

Peel Region's real estate submarkets are diverse. Our study therefore explores how this policy approach would impact the feasibility of residential development in 15 station areas throughout Brampton, Mississauga, and Caledon. The study areas were selected around expected PMTSAs and include both strong and emerging market areas with existing and/ or planned transit infrastructure improvements. Following are key points that frame the approach for testing.

- **Determine the Base (as-is, where-is) Land Value:** Underutilized properties are identified within the PMTSA (e.g. retail, industrial, low-density residential) and the value of these uses are estimated (see Example Box to follow). These values are assessed through a review of resale activity (for residential uses) or rental/capitalization rates (for commercial uses) to arrive at the estimated land value.
- **Determine the Land Value Supported by a High-Density Residential Project with and without IZ:** In each of the test locations, municipal staff developed prototypical development concepts based on the scale of development that might be reasonable to anticipate through a planning application. Some of these concepts are based on recent development activity, whereas others are based on what area planners envision for the PMTSA (i.e. where no high-density context currently exists).
    - NBLC tested a rental and a condominium tenure project in each test location.
    - In this assignment, proforma modeling is focused on assessing the impacts of residential uses only; this is to allow for testing results to reflect residential market conditions and to develop an evidence base that can be compared across transit station areas. We do however acknowledge that in some areas, prevailing planning policy would require development to be mixed-use, incorporating some commercial uses within the same development. This modeling effectively assumes that these spaces would have a break-even financial position. However, variances in this regard could affect results.
    - For each test location we undertake research to assess local pricing characteristics that are used to develop a financial proforma, structured as a residual land value model (RLV). See Section 2 of this report for a full exploration of the RLV concept.
    - This analysis is undertaken with and without IZ considered, to estimate the impact of theoretical IZ policies.

Example: Establishing Base (As-is, Where-is) Land Value

In determining an estimate of typical "as-is, where-is" value in each test location, we reviewed prevalent low-density (underutilized) residential and non-residential uses in each station area to estimate the potential value of those sites. This work involved the review of parcel sizes, building floor areas, and net rents of local underutilized commercial properties that are considered comparable to recent development sites, and estimated their value based on a capitalization rate. In some instances, we also estimate the cost of assembling a low-density residential block to create a new high-density redevelopment site.

For example, retail uses are common in many of the PMTSAs. On a property that could make up a development site is a 3,500-square-foot single storey retail building on a 0.42-acre lot. Net rents on the property (utilizing data from Costar) are $20 per square foot per year. Based on a capitalization rate of 5.5%, the property would support an as-is value of $1.25 M. We extrapolate this to a one-acre site area; roughly $3.0 M per acre. This therefore represents the value of acquiring the retail property and not what a high-density residential developer might pay for the site.

The as-is, where-is values for each PMTSA are estimated using aggregate values across multiple comparable properties in each PMTSA.

In areas where the high-density residential market is strong and the lot fabric is fragmented, it is possible that developers may assemble a few low-density residential homes for a high-density development. In these areas we have estimated the value of a reasonable land assembly using resale values of low-density homes in the area (i.e. the cost to acquire a single home).

5.2 Land Value as a Measure of Feasibility

The land value estimations of the underutilized properties (i.e. base land value), a residential development without IZ, and a residential development with IZ are then evaluated and compared to understand how development might be impacted by the policy. This comparison produces the following potential results:

- **Viable Results:** If the redevelopment scenario with IZ results in a residual land value that exceeds the base land value estimation (i.e. the value that might be supported as-is, were-is) by at least 10%, we assume that the policy is viable. It is assumed that a developer could likely purchase the property for an amount that is high enough to motivate the landowner to sell. The developer would then move forward with redeveloping the property, eventually satisfying the IZ policy as the project completes.
- **Marginal Results:** If the RLV with IZ is generally comparable to the base land value of a site (+/- 10%), we assume that policy viability is 'marginal'.
- **Challenged Results:** If the RLV with IZ falls 10% below the base value of a site, we assume that the viability of the IZ policy is challenged. In these latter instances, a residential developer

would likely not be able to purchase the site because the value the developer can afford to pay does not present enough upside to motivate a landowner to close their business. It might also become possible for other economically competitive uses to outperform the residential opportunity (i.e. new office, retail, low-density residential).

Based on this methodology, we look to see where the financial model creates marginal or challenging outcomes. These will be the areas where we would expect to see development interest weaken or delayed if the theoretical IZ policy were to be implemented in current market conditions.

This analysis therefore takes a forward-looking view when assessing the viability of an IZ policy framework. It assesses whether a developer could afford to purchase land in the market and develop a mixed-income building while maintaining an acceptable rate of return. For most urban areas serviced by transit, the land being purchased is likely to be developed, albeit underutilized properties (i.e. old retail plaza, industrial size). However, some of Peel Region's PMTSAs have complicated existing conditions:

- **Vacant Land not Designated for Residential Use:** Where land is not currently designated for residential use (e.g. industrial, agriculture), we have pulled comparable land transactions for the use it is designated for (i.e. vacant agricultural land). The RLV analysis therefore assumes the land has been redesignated to high-density residential development, and if the RLV with IZ can exceed the estimated value of non-residential vacant land by 10%, we view the policy as being feasible.
- **Large Commercial Property:** Some of the PMTSAs evaluated have a large commercial mall primarily under single ownership (e.g. Brampton's Shoppers World, Mississauga's Square One). These instances are important to consider because they take up a large proportion of the PMTSA. However, they are more difficult to assess because they are primarily under single ownership, are subject to significant development applications, and the underutilized land is typically parking area that supports the larger commercial use.
- **Vacant Land Designated for Residential Use:** Some of the PMTSAs evaluated have vacant lands that are designated for residential development. These also pose challenges because the land has already been acquired at a residential land value, and likely without considering an IZ policy.

In the latter two scenarios identified above, we assume the IZ policy framework could be viable if the RLV of the residential development with IZ can exceed an alternative infill investment opportunity that is typical for the specific situation. For example, this might include traditional townhomes on vacant land or new pad retail on a large commercial property instead of apartments. While this may not adequately cover every possible development outcome, it serves a base test for assessing impacts and feasibility. These situations are why transition to IZ will be a critical consideration, allowing developers who already own land the opportunity to submit a development application to exempt their project from IZ, sell their land, or prepare for the IZ framework in their future plans.

5.3 Test Sites and Prototypical Development Concepts

A prototypical development concept, developed by local municipal staff, was assessed in each test location. For each site, we assessed the development in both condominium and rental tenure. The following summarizes our financial model methodology. The test sites include areas where development is viable and occurring currently, as well as others that are less marketable but anticipated to emerge as new high-density market areas given planned investments in transit infrastructure and other local planning initiatives.

The development concepts tested are high-density residential forms (apartments, stacked townhomes), reflective of the types of development that have been recently completed, approved, or planned for in the test areas. The density and built form assumptions for each test site are outlined in **Table 3**.

5.4 Financial Model Assumptions

The following assumptions are applied in all scenarios:

- Hard construction costs are estimated from the Altus Construction Cost Guide 2020. The cost guide provides a cost range, on a per square foot basis for various building types, because actual costs will vary from site to site. This analysis takes the mid-point of the cost range to reflect a typical, average condition. Given the cost guide was published in January 2020, we applied a 3% inflator to better estimate development costs at the time of our August-September market survey. Further cost inflators are built into the model, as identified in **Table 5**.
- While these development cost estimations are useful for assessing impacts at an order of magnitude level, which is the level of detail of this analysis, it is acknowledged that costs will always vary across sites and developers as well as timing of construction.
- Current applicable property tax rates, planning application fees, and development charges are included in the model and vary based on the location of the test sites.
- This analysis considers the new regulatory framework related to Community Benefits Charges (CBCs) pursuant to the More Homes, More Choice Act, 2019 (formerly Bill 108) and Bill 197, The COVID-19 Economic Recovery Act, 2020. We assumed a CBC of 4% of the land value in each case. Cash-in-lieu (CIL) of parkland is calculated at current prevailing rates:
    - In Caledon the CIL is the higher of 5% of land value or 1 hectare per 500 units.
    - In Brampton the CIL is the greater of $4,056 per unit or 10% of land value.
    - In Mississauga the CIL is $10,400 per unit.

Table 3

Test Sites and Prototypical Development Concepts					
Municipality	**MTSA**	**Site Area (acres)**	**# Storeys**	**#Units**	**GFA**
Caledon	Bolton	1.50	6	55	56,325
Brampton	Mount Pleasant	0.72	9	189	170,783
Brampton	Gateway	1.00	27	195	176,453
Brampton	Brampton (Downtown HR)	0.84	39	506	442,275
Brampton	Brampton (Downtown MR)	0.48	10	95	83,398
Brampton	Bramalea	1.90	21	359	324,020
Mississauga	Eglinton (Uptown)	1.00	30	300	253,012
Mississauga	City Centre	1.00	40	500	406,627
Mississauga	Fairview	1.00	30	300	253,012
Mississauga	Cooksville	1.00	25	250	210,843
Mississauga	Tomken	1.00	6	100	87,349
Mississauga	Glen Erin	2.00	3	90	103,500
Mississauga	Clarkson	1.00	25	250	240,964
Mississauga	Port Credit	0.60	10	100	90,361
Mississauga	Britannia	1.00	6	100	90,361
Mississauga	Dixie/Lakeview	0.90	6	124	112,048
Source: City Staff and NBLC					

- Other soft costs including consultants (engineering, architectural, etc.), project management, legal, insurance, marketing fees, and others as noted in **Table 5**.
- For construction financing in all scenarios, it is assumed the developer can borrow 75% of development costs at an interest rate of 4.5% per annum. This assumption is also used for rental developments, which in some cases may require a higher developer equity contribution depending on the specifics of the project's revenue and costs (i.e. debt coverage ratios).
- Pre-development timelines and construction timelines are estimated based on anticipated absorption rates and an estimated pace of construction for each prototypical development concept.
- Developer profit in the condominium scenario is assumed to be 15% of gross revenue. In rental developments, developers will have different ways to measure return. For RLV modelling, we deploy a cap rate approach with a spread provided for profit. Of note, many other return metrics can be used by developers when assessing a rental project, including return on cost, equity returns, internal rates of return, and others. Since this analysis utilized a RLV approach, longer term cash flow analyses are not assessed.

The following tables highlight the range of other key assumptions applied throughout the modeling exercise as well as assumptions that were developed for each market area and prototypical development concept based on market research.

Table 4

Market Location	Avg. Unit Size	Parking Ratio		Condo Price $PSF	Condo Parking Price	Condo Sales Abs. Rate /Mo.	Rental Rate $PSF	Rental Rate $PSF/ MO	Exit Cap Rate
Area Specific Model Assumptions – Market Units									
		Res.	V						
Bolton	850	1.50	0.25	$700	$35,000	3	$2.50	$80	4.75%
Mount Pleasant	750	1.00	0.20	$800	$35,000	7.5	$2.70	$80	4.25%
Gateway	750	1.00	0.20	$775	$40,000	10	$2.70	$80	4.25%
Brampton (Downtown High Rise)	725	0.50	0.10	$800	$40,000	10	$2.80	$100	4.25%
Brampton (Downtown Mid-Rise)	725	0.50	0.10	$800	$40,000	10	$2.80	$100	4.25%
Bramalea	750	1.00	0.20	$775	$40,000	10	$2.70	$100	4.25%
Eglinton (Uptown)	700	0.96	0.15	$900	$45,000	15	$3.20	$100	4.00%
City Centre	675	0.86	0.15	$1,000	$50,000	20	$3.40	$125	4.00%
Fairview	700	0.97	0.15	$975	$45,000	20	$3.20	$100	4.00%
Cooksville	700	0.86	0.15	$950	$40,000	15	$3.15	$100	4.00%
Tomken	725	1.00	0.15	$800	$35,000	10	$2.95	$100	4.25%
Glen Erin (stacked townhomes)	1,150	1.28	0.00	$650	$0	15	$2.45	$100	4.25%
Clarkson	800	1.00	0.15	$800	$35,000	10	$3.00	$100	4.00%
Port Credit	750	0.86	0.15	$1,000	$55,000	20	$3.30	$125	4.00%
Britannia	750	1.00	0.20	$800	$35,000	7.5	$2.75	$100	4.25%
Dixie/Lakeview	750	1.00	0.20[1]	$825	$35,000	10	$2.95	$100	4.00%

1. At Dixie/Lakeview visitor parking ratio of 0.15 is tested for rental developments as per the direction from the City of Mississauga.
Source: NBLC Market Scan

Table 5

Financial Model Assumptions			
Variables			
Revenue Inflator, per annum - New Residential		2.00%	
Vacancy & Bad Debt		2.00%	
Operating Expense Ratio (Affordable)		45.00%	
Operating Expense Ratio (Market)		35.00%	
Net to Gross Efficiency (GCA to net saleable area)		83%	
Hard Costs (3% premium over 2020 Altus cost guide mid-point applied)			
Stacked Townhomes		$165	
Hybrid Construction up to 6 storeys ($psf)		$224	
Apartment up to 12 storeys ($psf)		$245	
Apartment 13 to 39 Storeys ($psf)		$250	
Apartment 40 to 60 Storeys ($psf)		$276	
Apartment over 60 storeys ($psf)		$309	
Freestanding Parking Garage ($psf)		$103	
Underground Parking ($psf)		$152	
Underground Parking Garages (Single Level, Open Cut Excavation)		$113	
Surface-Level Parking Construction		$15	
Servicing Connection Cost (per unit)		$1,000	
Landscaping & Hardscaping (per unit)		$1,000	
Demolition & Site Prep ($psf of site area)		$10	
Contingency Factor (% of hard costs)		10.00%	
Cost Inflator, per annum		2.00%	
Soft Costs			
Planning Application Fees	Caledon	Brampton	Mississauga
OPA and ZBA			
Regional OPA (Application requiring full circulation)	$20,000	$20,000	$20,000
Local OPA and ZBL - base fee	$50,345	$20,919	$46,203
For the first 25 units	$0	$421	$968
26 to 100 unit	$0	$336	$512
101 to 200 units	$0	$256	$212
201 units and above	$0	$211	$98
Max Fee		$458,005	$223,423
SPA			
Regional SPA (Major)	$1,000	$1,000	$1,000
Local Site Plan Application - base fee	$33,749	$5,075	$10,549
Local Site Plan Application - additional fee (per unit)			
For the first 25 units	$0	$421	$621
26 to 100 unit	$0	$336	$283
101 to 200 units	$0	$256	$65
201 units and above	$0	$211	$65
Local Site Plan Application - additional fee (per ha)	$5,228		
Max Fee		$108,654	$82,089

Condominium Approval	Caledon	Brampton	Mississauga
Regional SPA (Major)	$1,000	$1,000	$1,000
Local Site Plan Application - base fee	$33,749	$5,075	$10,549
Local Site Plan Application - additional fee (per unit)			
For the first 25 units	$0	$421	$621
26 to 100 unit	$0	$336	$283
101 to 200 units	$0	$256	$65
201 units and above	$0	$211	$65
Local Site Plan Application - additional fee (per ha)	$5,228		
Max Fee		$108,654	$82,089
Building Permit Fees			
Apartment/Stacked Townhomes (/sqm)	$13.20	$17.22	$18.79
Min Fee	-	$383	$164
Staff Time (Hr)	$100	$103	$146
Regional Development Charges (Full)			
Apartment (Small unit, <=70 sqm)	$36,955	$39,914	$41,703
Regional DC	$21,489	$21,662	$21,662
Local DC	$10,678	$13,465	$15,254
Education	$4,572	$4,572	$4,572
GO Transit	$215	$215	$215
Apartment (>70 sqm)	$55,673	$61,108	$65,737
Regional DC	$32,491	$32,752	$32,752
Local DC	$18,195	$23,369	$27,997
Education	$4,572	$4,572	$4,572
GO Transit	$415	$415	$415
Townhouse Dwelling (Per Unit)	$72,484	$77,809	$80,951
Regional DC	$43,489	$43,840	$43,840
Local DC	$23,841	$28,815	$31,958
Education	$4,572	$4,572	$4,572
GO Transit	$581	$581	$581
Community Benefits Charge	*4%*	*4%*	*4%*
Cash-in-lieu of Parkland Contribution	*5% of LV or 1 ha for every 500 units*	*$4056.5/unit or 10% of LV*	*$10,400/unit*
Property Tax Rate (Residential, new multi-residential)	0.797%	0.953%	0.786%
Consultants, PM, Legal, Insurance, Marketing, Development & Construction Management	14.50%	Of hard cost	
Insurance	1.00%	Of hard cost	
Marketing	2.50%	Of hard cost	
Sales Commission Fee	2.50%	Of revenue	
Lender's Administrative Fee	0.80%	Of total cost	
Construction Loan Interest Rate	4.50%		
HST Rate	13.00%		
Discount Rate	6%		

5.5 Limitations of this Analysis

This analysis uses available data at a point in time to develop a basis of evidence for policymakers to consider and engage with stakeholders as strategies to address affordable housing needs are developed. This point in time is reflective of our August-September market surveys and all costs known as of this date. However, given the nature of free markets, this analysis cannot account for future unexpected shifts in economic conditions that may directly impact development viability, especially when the global pandemic is still current. The degree to which these considerations have long term implications on real estate markets is currently unknown. Sustained impacts to the macro-economic health of Ontario and Canada may warrant the reassessment of any emerging inclusionary zoning policy, especially in light of the current low-interest rate environment and public spending. Future cost and revenue increases in excess of the assumptions in our model are also possible.

Building off the above, this analysis assesses a prototypical development in each PMTSA to make general conclusions about the larger area and the IZ policy. Development economics, pricing, development costs, property constraints, policy considerations, and many others will all vary from site to site and over time. For example, this analysis does not consider site specific considerations such as soil contamination, heritage constraints, or other factors that might impact a development project. This analysis also cannot capture certain nuances arising from the nature of a historical land purchase or the former capitalization of land costs through the operation of an income-generating use in the interim. Nor can it contemplate the acquisition of land at speculative values, not fully appreciating the magnitude of impacts from future policy adjustments.

Finally, there will also be instances where land vendors, developers, or operators have operating assumptions or methodological approaches that differ from those in this report. Landowners may also have difficulty adjusting to the new market reality of IZ, potentially taking time for them to understand/appreciate why property values have been impacted. For this reason, it is possible that development may or may not occur in practice, at times these instances may be contrary to the results of this work. Again, this analysis is intended to provide the municipalities with a high-level view with respect to the opportunities or barriers related to a forward looking IZ approach in scenarios that are thought to be reasonable prototypes for development occurring under current market conditions (in addition to reasonable conservative estimates of future cost and revenue appreciation) within the premise of a willing buyer and a willing seller.

The results of this analysis should be used to inform policy decision making but should not be construed as absolute metrics as the policy approach is implemented.

6.0 Findings of the Financial Analysis

This section assesses the high-level results of the financial analysis, which are displayed in **Tables 6**, **7**, and **8**. The discussion focuses on key themes across all findings as well as considerations unique to specific PMTSAs.

6.1 Condominium Developments Show Evidence of Viability with IZ in Most PMTSAs

The high-density residential market in Peel Region has strengthened significantly over the past several years. The financial results suggest that, absent IZ, condominium development is generally viable in most of the PMTSAs assessed. Challenged or Marginal results are typically only observed in situations where a developer would be looking to assemble small retail units, low-density homes, or build in a strong industrial context. These findings are not surprising given the economic challenges of land assembly.

While general viability is observed, it is noted that residential pricing (and associated land value) varied drastically, with residential pricing ranging from $700 per square foot in Bolton to over $1,000 per square foot in Mississauga City Centre. Given that the introduction of IZ will reduce the RLV of a property, the financial analysis illustrates that stronger market areas are better able to absorb the impact of IZ than emerging market areas (e.g. the value of a high-density residential development remains above the value of a retail property when IZ is accounted for). In emerging market areas, the land value supported by high-density residential uses may be similar or even below the value of underutilized land, which would likely create unviable development outcomes if IZ were to be introduced as proposed.

These results therefore indicate that a ‘one size fits all’ approach to IZ is problematic. The eventual implementation of IZ will need to account for and acknowledge market variations across the Region to ensure successful policy outcomes.

6.1.1 *Strong Condominium Markets*

In strong market areas, the revenue potential of a condominium development can result in a RLV that is well above the value supported by underutilized uses and other lower density commercial investment options. These PMTSAs include: Mount Pleasant, Downtown Brampton (with 50% DC waiver based on current CIP and floodplain mitigated), Uptown Mississauga, Mississauga City Centre, Fairview, Dundas-Cooksville, Port Credit, and Tomken. In these PMTSAs, the RLV yielded by condominium development is at least 20% above the value supported by existing underutilized uses, which provides a sizable cushion for development to remain viable with IZ.

Table 6

Assessment of IZ Impacts Summary Table - Caledon and Brampton										
PMTSA	Results of RLV Proforma Testing (top row) Underutilized Land Uses and Associated as-is where-is Land Value (bottom rows)			Condominium Development				Rental Development		
				Current Policy	IZ (aff ownership)	IZ (aff rental, 25 years)	IZ (aff rental, perpetuity)	Current Policy	IZ (aff rental, 25 years)	IZ (aff rental, perpetuity)
Bolton 1.5 Acre	RLV of Development Financial Testing -->			$1.76M	$1.29M	$1.28M	$948k	(-$4.1M)	(-$4.25M)	(-$4.64M)
	Underutilized Land Use and Value	Agricultural Land	$0.24M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Industrial Use	$2.83M	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge
Mount Pleasant 0.72 Acre	RLV of Development Financial Testing -->			$6.16M	$4.40M	$4.65M	$3.70M	(-$7.22M)	(-$8.31M)	(-$9.37M)
	Underutilized Land Use and Value	Vacant Commercial Land	$1.24M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Vacant Residential Land	$1.33M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
Gateway 1.0 Acre	RLV of Development Financial Testing -->			$3.43M	$1.67M	$1.90M	$0.88M	(-$9.94M)	(-$11.11M)	(-$12.2M)
	Underutilized Land Use and Value	Vacant Residential Land	$2.82M	Viable	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge
		Low Density Retail	$3.76M	Marginal	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge
Downtown Brampton High-Rise 0.84 Acre	RLV of Development Financial Testing -->			$20.79M	$17.34M	$18.32M	$16.07M	(-$0.38M)	(-$3.32M)	(-$6.09M)
	Underutilized Land Use and Value	Industrial Use	$1.41M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Low Density Office	$4.27M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Detached Homes	$5.50M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Low Density Retail	$12.63M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
Downtown Brampton Mid-Rise 0.48 Acre	RLV of Development Financial Testing -->			$6.17M	$5.35M	$5.47M	$4.98M	(-$0.15M)	(-$0.75M)	(-$1.32M)
	Underutilized Land Use and Value	Industrial Use	$.80M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Low Density Office	$2.46M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Detached Homes	$3.15M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Low Density Retail	$7.22M	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge
Bramalea 1.9 Acre	RLV of Development Financial Testing -->			$5.75M	$2.86M	$3.48M	$1.74M	(-$14.32M)	(-$16.4M)	(-$18.4M)
	Underutilized Land Use and Value	Industrial Use	$5.28M	Marginal	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge
		Low Density Retail	$8.32M	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge

Note: Downtown Brampton includes a 50% DC waiver

Table 7

Assessment of IZ Impacts Summary Table - Mississauga (1)										
PMTSA	Results of RLV Proforma Testing (top row) Underutilized Land Uses and Associated as-is where-is Land Value (bottom rows)			Condominium Development				Rental Development		
				Current Policy	IZ (aff ownership)	IZ (aff rental, 25 years)	IZ (aff rental, perpetuity)	Current Policy	IZ (aff rental, 25 years)	IZ (aff rental, perpetuity)
Uptown 1.0 Acre	RLV of Development Financial Testing -->			$15.79M	$12.48M	$13.5M	$11.82M	$5.2M	$2.85M	$1.11M
	Underutilized Land Use and Value	Low Density Retail	$4.90M	Viable	Viable	Viable	Viable	Marginal	Challenge	Challenge
		Older Townhomes	$11.31M	Viable	Viable	Viable	Marginal	Challenge	Challenge	Challenge
Mississauga City Centre 1.0 Acre	RLV of Development Financial Testing -->			$32.88M	$26.42M	$28.12M	$25.12M	$6.73M	$2.65M	(-2.03M)
	Underutilized Land Use and Value	Low Density Retail	$4.68M	Viable	Viable	Viable	Viable	Viable	Challenge	Challenge
Fairview 1.0 Acre	RLV of Development Financial Testing -->			$23.76M	$19.7M	$20.62M	$18.90M	$3.74M	$1.44M	(-$1.23M)
	Underutilized Land Use and Value	Low Density Retail	$3.37M	Viable	Viable	Viable	Viable	Viable	Challenge	Challenge
		Older Townhomes	$9.64M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
Cooksville 1.0 Acre	RLV of Development Financial Testing -->			$17.94M	$14.79M	$15.62M	$14.23M	$3.31M	$1.49M	(-$752k)
	Underutilized Land Use and Value	Low Density Retail	$7.4M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Low Density Office	$8.95M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
Tomken 1.0 Acre	RLV of Development Financial Testing -->			$7.88M	$6.95M	$7.16M	$6.58M	$2.58M	$1.95M	$1.36M
	Underutilized Land Use and Value	Low Density Retail	$3.9M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Industrial Use	$4.48M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Detached Home	$8.23M	Marginal	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge
Glen Erin 2.0 Acre (stacked towns)	RLV of Development Financial Testing -->			$9.64M	$8.12M	$8.78M	$7.97M	$6.34M	$5.39M	$4.59M
	Underutilized Land Use and Value	Low Density Office	$3.87M	Viable	Viable	Viable	Viable	Viable	Viable	Viable
		Industrial Use	$4.98M	Viable	Viable	Viable	Viable	Viable	Marginal	Marginal
		Low Density Retail	$8.72M	Viable	Marginal	Marginal	Marginal	Challenge	Challenge	Challenge

Table 8

Assessment of IZ Impacts Summary Table - Mississauga (2)										
PMTSA	Results of RLV Proforma Testing (top row) Underutilized Land Uses and Associated as-is where-is Land Value (bottom rows)			Condominium Development				Rental Development		
				Current Policy	IZ (aff ownership)	IZ (aff rental, 25 years)	IZ (aff rental, perpetuity)	Current Policy	IZ (aff rental, 25 years)	IZ (aff rental, perpetuity)
Clarkson 1.0 Acre	RLV of Development Financial Testing -->			$5.56M	$2.72M	$3.84M	$2.25M	$1.12M	(-$1.92M)	(-$3.67M)
	Underutilized Land Use and Value	Industrial Use	$2.55M	Viable	Marginal	Viable	Challenge	Challenge	Challenge	Challenge
		Low Density Retail	$3.7M	Viable	Challenge	Marginal	Challenge	Challenge	Challenge	Challenge
		Old Townhomes	$12.17M	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge
Port Credit 0.6 Acre	RLV of Development Financial Testing -->			$12.87M	$10.99M	$11.38M	$10.64M	$3.63M	$2.61M	$1.88M
	Underutilized Land Use and Value	Detached Homes	$5.04M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Low Density Office	$5.34M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Street Retail	$7.99M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
Britannia 1.0 Acre	RLV of Development Financial Testing -->			$3.4M	$3.0M	$3.17M	$2.63M	(-$3.57M)	(-$4.18M)	(-$4.77M)
	Underutilized Land Use and Value	Vacant Residential Land	$1.21M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Vacant Commercial Land	$1.43M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Low Density Retail	$4.5M	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge
		Older Townhomes	$10.63M	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge
Dixie/Lakeview 0.9 Acre	RLV of Development Financial Testing -->			$5.98M	$4.71M	$5.10M	$4.41M	$1.2M	(-$0.10M)	(-$0.86M)
	Underutilized Land Use and Value	Industrial Use	$2,36M	Viable	Viable	Viable	Viable	Challenge	Challenge	Challenge
		Low Density Office	$5.33M	Viable	Challenge	Marginal	Challenge	Challenge	Challenge	Challenge
		Street Retail	$6.52M	Marginal	Challenge	Challenge	Challenge	Challenge	Challenge	Challenge

For example, in Downtown Brampton, the RLV supported by a high-rise condominium redevelopment is $20.8M, well above the value supported by low density retail and other underutilized land uses in the PMTSA. With IZ imposed, the RLV of the project remains above the value of underutilized uses, which indicates that a residential developer could still afford to acquire land in the market and build a viable project, despite the sizeable impact on land value brought about by IZ. However, as stated throughout this report, site-specific considerations could impact these results, such as built-form characteristics, floodplain issues, heritage considerations, or other specific property constraints. Further, to simulate situations where a property could not accommodate a large tower, a mid-rise building of only 95 units was also tested, which demonstrates that a retail assembly would likely no longer be viable. Results will always vary depending on the specifics of each project.

Similarly, as stated throughout this report, if a developer has already acquired land in the market without considering IZ, the viability of the project is likely to be challenged. As identified in **Table 6**, if a developer purchased a property for $20M in Downtown Brampton without considering IZ, whereas the IZ policy depresses land value to $17M, the difference will impact the developer's profit margin. In this situation, the developer is not likely to be able to move forward with the project without reduced profit expectations. This could result in the delay of market and affordable housing. Transition to IZ will be necessary for these situations.

In viable market areas, where land values are significantly impacted, it is also possible that the reduction in land value might 'shock' the market, notwithstanding the fact that the 10% premium over typical as-is where-is value is maintained. In these situations, landowners may take time to understand why land values have been reduced by such a large margin and may not sell their site until their expectations reflect the new market reality of IZ. The results in the summary tables indicate that land values could be negatively impacted by between 15% and 60% depending on the scenario. This should be considered carefully by each local municipality when developing their IZ framework, as an overly aggressive approach could severely impact the market over the short to medium-term, notwithstanding the results of this financial analysis. A range of project and site-specific factors would also become relevant, including the motivations of the landowner and developer interests involved.

6.1.2 *Emerging Condominium Markets*

In emerging condominium market areas, the RLV of condominium redevelopment is generally similar to the value supported by underutilized uses without IZ provisions, or the RLV is above certain types of existing uses (e.g. industrial uses) but below others (e.g. retail). These PMTSAs include: Bolton, Brampton Gateway, Bramalea, Glen Erin, Clarkson, Britannia, and Dixie/Lakeview.

For example, within the Dixie/Lakeview PMTSA, the financial results indicate that IZ would impact the ability of developers to acquire and redevelop low-density retail and office uses along

Lakeshore Road East, which is primarily due to the strong retail node in this area and the requirement to assemble multiple small commercial properties to build a residential apartment. However, viable results are observed in the same PMTSA if a larger industrial property on the south side of Lakeshore Road was acquired. IZ may therefore result in some properties experiencing redevelopment, but not others. In some of the PMTSAs, the IZ policy appears to have an impact on viability more broadly.

The high-density residential market is maturing rapidly across Peel Region. However, high-density residential land values in emerging markets may not be high enough to remain the highest and best in the event of policy changes (i.e. IZ). Developers are frequently apprehensive of taking large risks in emerging markets and will often reduce what they are willing to pay for land as a form of "risk premium". As such, low-density commercial uses or lower density residential development can represent the highest and best use (i.e. yield the highest land value). Thus, it is critical that an IZ policy be developed with an understanding of the market nuances at play in each PMTSA. Seeking high set-aside rates, deep affordability levels, or permanent affordability in emerging markets may discourage new development as developers will look for other opportunities.

In these marginal or emerging market areas, the implementation of IZ must be cognizant of these dynamics. Phasing or transition policies are strongly encouraged to avoid unintended market consequences. However, this is not to signal that IZ polices should not be considered outside of PMTSAs with strong residential markets for the following reasons:

- Early implementation of IZ policies in these emerging locations could set the PMTSA up for long-term success, injecting the policy early on, before residential land values strengthen significantly. The trade-off would likely be a delay in the pace at which near-term residential development activity occurs – effectively maintaining the status quo for longer. The benefit, however, is that once residential development economics do improve, IZ is already part of the economic and land pricing equation, producing affordable supply within every new residential project. In this situation, a modest set-aside rate might be appropriate, with language included in the policy that the IZ requirements may increase upon the next review.
- It is also important to note that many of the PMTSAs evaluated do not currently have transit, but rather are subject to a future high-order transit line or existing transit stations will undergo significant service improvements (i.e. GO Expansion). It is likely that market dynamics will improve in these areas as transit is implemented, furthering the ability for IZ to be absorbed. Municipalities should consider signaling to the market the emergence of IZ as soon as possible and time the implementation of IZ with the transit improvements. This would provide sufficient time for developers to begin accounting for both the transit and IZ as they begin making investment decisions.
- Within many PMTSAs that are considered emerging markets, there are situations where land either does not permit high-density development or does not permit residential development at all. For example, the Bolton PMTSA is predominantly agricultural and industrial land, and

Bramalea, Tomken, Glen Erin, and Clarkson all have a sizable number of properties that have an employment/commercial designation that does not permit residential development. Within this context, it is likely that landowners’ expectation for land value remains low. If these areas are redesignated and/or up-zoned, the land value will escalate, especially if the market continues to mature. A land use change that is combined with new transit will be a significant offset for developers to accommodate IZ, as discussed in Section 2 of this report. Introducing IZ in concert with these changes, while possibly delaying development viability over the near-term, would ensure the policy is considered as land begins to transact and developers begin to make investment decisions. Like the discussion above, a modest set-aside rate might be appropriate, with language included in the policy that the IZ requirements may increase upon the next review.

- Overall, near term implementation of IZ, even if enacted at first with a token (nominal) requirement, will create far less hardship if implemented prior to the maturation of the marketplace. For example, if IZ is not implemented or signaled to the market at the time of a land use change and transit investment, developers will continue to purchase land without considering the IZ policy. Since the increase in land value has already occurred (i.e. combined impact of transit and land use change), the ability to accommodate IZ later becomes more challenging.

6.2 Rental Projects do not Illustrate Viability for IZ at the Current Time

The analysis indicates that purpose-built rental projects are likely not able to accommodate IZ at the current time. This is because purpose-built rental projects generally support a much lower RLV than condominium projects. This is one of many factors explaining why Peel Region, and most of the GTHA, experiences significantly more condominium development relative to rental despite very low vacancy rates. Rental housing is typically at a disadvantage in Ontario for several factors including:

- **Financing:** In a condominium project, financing can be supported with less equity due to the pre-sale process. The pre-sale process allows lenders to become comfortable with the viability of the project, years before the development is completed. In rental housing, leasing cannot begin until the building is very close to completion. The market risk between the time the project is initiated and the leasing period is much more difficult to assess. The typical equity requirement for a rental building is also much higher than a condominium, which reflects project risk factors, the lack of sales deposits, and the debt that can be supported over the long-term through the building’s cash flow.

- **Revenue:** Related to the above, a rental development requires the developer to go many years into the development process without any revenue. Even once the building is constructed it can take many months to become fully occupied and ‘stabilize’. In a condominium development, a developer will begin to collect revenue throughout the pre-sales period through deposits and receive the full purchase price when the building is complete and transferred. When the development is ready to be occupied, the developer can immediately charge all purchasers interim occupancy charges (effectively rent) until the project is registered and purchasers begin to pay their mortgages.

- **Market and Risk:** For many developers, the market opportunity for condominium development offers much less risk and relatively quick returns compared to purpose-built rental development where returns are earned over a longer period.
- **Land Acquisition Competition:** For the reasons identified above, rental developers must attribute greater discounting to their project to reflect risk and the time-value-of-money. This often means that a rental developer cannot pay the same land price that a condominium developer can. Often, new rental development occurs on land that has been historically inventoried or capitalized through another productive land use (i.e. large format retail).

In most of the PMTSAs, rental development appears to be unviable even without IZ requirements, as the land value supported by the project is less than the land value supported by many underutilized uses. This is not to say that no rental development will occur, but rather that other circumstances will likely need to be present for a project to advance, such as:

- A developer acquired land many years ago for a purchase price well below current market values. This developer would also likely be predisposed to undertaking a rental building over a condominium project. Often this can include a commercial property owner that is used to long-term cash flows that rental housing can provide.
- While this analysis assesses impacts through a RLV lens, some rental developers will take a longer-term investment approach where an estimated internal rate of return may yield different results regarding the decision to purchase land and develop a rental building.

If increased rental development is an objective of each municipality, this research might justify exempting purpose-built rental projects from IZ or reducing the IZ requirements for these projects (e.g. lower set-aside rates).

6.3 Satisfying IZ with Affordable Ownership Vs Affordable Rental

The analysis in this study assesses IZ units in the following way:

- **Rental Project:** IZ requirements would be satisfied through affordable rental exclusively (either perpetual or a defined period of 25-years). It is assumed that if the developer is already proceeding with a rental project that they would prefer to satisfy IZ through affordable rental.
- **Condominium Project**: IZ units would be satisfied either through affordable ownership or affordable rental (either perpetual or a defined period of 25-years). The developer could choose the avenue they prefer. Options are provided because many condominium developers are not able to operate and maintain a rental building over the long-term, rather they are structured to

deal with shorter term condominium projects exclusively (e.g. do not have property management staff / experience, leasing agents, on-site staff and contracts, etc.).

The financial results in this report indicate that affordable ownership and affordable rental (for 25-years) yield similar results, with longer-term affordable rental yielding more significant impacts (see Section 6.4 to follow). While we have tested both affordable rental and ownership, it is likely that a condominium developer would prefer satisfying IZ requirements through affordable ownership. Administratively, having different tenure in the building would increase the complexity of a development, and many condominium developers may not have experience working with rental units, or as noted above, have the capacity to manage rental units.

Given the above, it is likely that many condominium projects would seek to satisfy IZ through affordable ownership. This could be problematic given the following:

- Affordable ownership is generally a one-time affordability play, where the unit reverts to market price once the original purchaser decides to sell.
- Unlike affordable rental, which would be affordable for the long-term (25 years or perpetuity), affordable ownership would not create an enduring supply of affordable housing unless the municipality were to implement a perpetual affordable ownership model like the Whistler Housing Authority ("WHA") model highlighted in Section 4.2. This would require direct intervention by the Region/local municipality in establishing:
    - A framework for acquiring the IZ units from the developer.
    - Creating a mechanism (e.g. non-profit organization, municipal development corporation, Peel Living, etc.) for managing and operating the units, including the creation of a wait-list.
    - Establishing either a second-mortgage program or structure like the WHA model with internal maximum caps on appreciation.
- If the above is not pursued, Ontario Regulation 232/18 allows a portion of the new proceeds from the sale of an affordable housing unit to be distributed to the municipality. This would mean that the municipality could capture a portion of the appreciated sale value when a qualified purchaser decides to sell their affordable ownership unit. While this would provide the municipality with cash flow, which could be used to support other affordable housing programs and investment, it would not serve to protect the affordable housing supply being created by IZ.

Given that most high-density residential development in Peel Region is condominium in tenure, and therefore likely that most of the IZ units could be satisfied through affordable ownership, these outcomes should be considered carefully. Should the Region or local municipalities prefer one IZ tenure over another, they should provide implementation programs that facilitate the smooth delivery, allocation, and management of those IZ units.

6.4 Affordability Period

To analyze the inclusion of affordable rental units, two affordability periods have been assessed: 25-year affordability and permanent affordability. Overall, the model suggests that the perpetuity requirement could have a noticeably larger impact on land value compared to the 25-year scenario. However, individual developer perspectives and other factors would impact the degree to which this is rationalized from site to site. For example, while some developers acknowledge that the financial impact of perpetual vs defined affordable rental can be minor over the life of a project, many also identify that the lack of flexibility and risk of operating costs (e.g. utilities, property taxes) increasing faster than affordable revenue present significant risks that can detract a project from moving forward.

This order-of-magnitude estimate suggests that permanent affordability does not appear to change the viability result in most cases. For condominium developments:

- In strong market areas, projects can generally remain viable with perpetuity requirements.
- In emerging market areas, perpetuity does appear to impact viability in some of the PMTSAs evaluated.

While perpetual affordability is desirable from an affordable housing perspective, requiring this might result in developers choosing to satisfy IZ with affordable ownership, which could create undesirable outcomes as summarized in the previous subsection. It is also possible to implement IZ with a defined affordable rental period of 25-years, scaling up to perpetuity over time as the policy evolves in subsequent reviews. Another option would be to engage the non-profit sector in the operation of these IZ units, however an implementation process must be developed.

6.5 Impacts on Affordability

As discussed in prior sections of this report, the impact of an IZ policy would be to cap a portion of project revenue, placing downward pressure on residential land value. If IZ is introduced too aggressively, where development is no longer viable, development will not occur. This would not result in the creation of affordable housing and would also result in the loss of market housing supply, which could impact pricing on a macro level as supply would not meet demand.

Assuming IZ is introduced in a way that does not disrupt development viability, as assessed in this report, there would not be any impact to market pricing as developers would continue to position their developments at the maximum price supported by the market (i.e. interaction of supply and demand).

6.6 Impacts on Other Land Uses

If IZ is applied in a manner that creates a significant impact to residential land values, an unintended consequence could be an improvement in the ability for other productive non-residential uses such as retail or office development to compete for land in prime locations, or a slowing of development interest overall. This should be considered relative to other growth objectives that the Region and local municipalities have at emerging transit nodes and other locations.

It should be noted that this study is being conducted during the COVID-19 pandemic, which has had an immense impact on the retail and office sectors. Rents and cap rates used in this study do not reflect the full picture of COVID-19 and therefore the underlying land value could be lower than estimated in this study. However, the same could be true for residential land value and pricing (e.g. rents/sale price), although evidence does not support this notion yet. The full impact of COVID-19 will likely not be known for many years after a vaccination is widely administered.

6.7 Markets need Time to Adjust – Transition Policy

A transition policy for IZ will be vital to ensure that developers who have already acquired land in the market without considering IZ can advance their development without being subject to an affordable housing requirement, or at the very least be able to account for the impact early in the development process. An adequate transition policy will also allow both developers and landowners the opportunity to adjust to the new market realities of an incoming IZ policy. Similar transition policies are also observed when municipalities plan for development charge increases.

The minimum transition policies as required by Ontario Regulation 232/18 state:

8. (1) An inclusionary zoning by-law does not apply to a development or redevelopment where,

> *(c) on or before the day an official plan authorizing inclusionary zoning was adopted by the council of the municipality, a request for an amendment to an official plan, if required, and an application to amend a zoning by-law were made in respect of the development or redevelopment along with an application for either of the following:*
>
> > *(i) approval of a plan of subdivision under section 51 of the Act, or*
> >
> > *(ii) approval of a description or an amendment to a description under section 9 of the Condominium Act, 1998; or*
>
> *(d) on or before the day the inclusionary zoning by-law is passed, an application is made in respect of the development or redevelopment for a building permit, a development permit, a community planning permit, or approval of a site plan under subsection 41 (4) of the Act.*

Depending on when IZ is expected to be implemented, the local municipalities could consider extending this minimum transition policy. If, for example, PMTSA plans and IZ are not expected to be formally implemented for over a year, and significant consultation occurs during this period, this may be enough time to signal to the market the emergence of an IZ policy. If these plans and policies are expected sooner, and/or limited consultation is expected, a longer transition policy should be considered.

6.8 Site Specific Commentary

The following offers commentary where the results of the financial analysis may not fully capture the conditions of a specific PMTSA.

6.8.1 *Mount Pleasant PMTSA*

While Mount Pleasant produces viable results through the financial analysis, the PMTSA likely offers a very limited opportunity for IZ given the following:

- Most of the development in the area is relatively new, likely limiting their potential to be acquired for new high-density residential development.
- The vacant lands within the PMTSA are subject to development applications and are likely to be exempt from an IZ policy. This also significantly impacts the as-is, where-is base land value estimations of these sites.

6.8.2 *Gateway and Mississauga City Centre*

Both Gateway and Mississauga City Centre PMTSAs are dominated by a large commercial property (Shoppers World and Square One) that are primarily under single ownership and subject to significant development applications.

- As discussed throughout this report, this analysis takes a forward-looking view to assessing IZ, where a developer will purchase an underutilized property and move forward with developing the site with high-density residential uses. However, there are situations where a developer already owns a commercial property, has capitalized on the original price paid for the land by operating the site as a commercial use for many years, and are now moving forward with redeveloping the site themselves (i.e. with no land sale/purchase).
- The above situation appears to be the case at both properties, which accounts for a large segment of both PMTSAs. Owners of these sites have various methods of accounting for land value, but if an IZ policy were introduced, there might be greater flexibility to extract affordable housing due to this condition. At Mississauga City Centre specifically, high-density residential development with IZ incorporated is very likely to remain the highest and best use of potential infill development (relative to retail or office).

6.8.3 *Bramalea and Clarkson*

The financial results at Bramalea GO Station are negative, however it is be noted that these results are heavily affected by the built form tested, which is a 21-storey building with 359 units, at 1.20 parking ratio, on a 1.90-acre site. Parking accommodation is assumed to be 90% underground and 10% surface as per direction received by local planners. It is possible that a development, even with IZ, could be viable if the development were to employ some cost saving approaches:

- For example, the site size is large for a condominium building at 1.9 acres, which is much higher than the other PMTSAs assessed (**Table 3**). This could allow the site to accommodate some surface parking - if 40% of the total parking was accommodated at surface level, the RLV could rise to $11.0 million, which is well above the value supported by existing underutilized uses. This would likely be viable with IZ provisions.
- Alternatively, if the site size were reduced to 1 acre, this would reduce the land assembly size required, therefore reducing the value of the underutilized base land values, which would also improve results.

This situation illustrates the limitations of the analysis. Different sites and context will yield varying results, even within the same PMTSA.

Notwithstanding these results, the Bramalea PMTSA likely remains a strong candidate for IZ given that the area will soon be serviced with two-way, all-day, 15-minute or sooner headways at the GO Station and will also undergo a significant planning exercise that might introduce new high-density residential permissions. As these initiatives are implemented, the market is likely to improve from the current environment. Signaling to the market the emergence of an IZ policy will be key during this period, to ensure that land transactions account for the future emergence of an IZ policy. Pursuing a lower IZ set-aside rate may also be appropriate in the interim, scaling up to a higher rate as the market evolves and matures over time. Similar considerations are observed at the Clarkson PMTSA.

6.8.4 *Britannia PMTSA*

The Britannia PMTSA is largely occupied by stable low-density residential development and vacant land designated for residential uses. While the financial analysis illustrates viable results for development of vacant land, which is based on a limited sample of comparable land transactions in the surrounding area, much of this land is already designated for higher density residential development and large segments of these lands have recently transacted.

Within this context, there is little trade-off offered to future developers, as land is already designated, and the future BRT service is likely to have modest impacts on the real estate market. Therefore, while the results do indicate positive results for some of these lands, IZ may result in the delay of high-density development in this area. Adequate transition policies should be considered to alleviate these issues.

7.0 Implementation Considerations

To begin the process of implementing IZ, each of the municipalities must begin to consider the following:

7.1 Delineation and Plans for PMTSAs

PMTSAs must be delineated within an Official Plan. Further, these areas must be supported with plans, policies, and zoning that detail permitted uses, densities and heights, an assessment of minimum density targets, and other requirements identified in Provincial policy. IZ may be implemented together with these plans and policies.

7.2 Local Municipal Official Plan Policies

Ontario Regulation 232/18 states the Official Plan policies must include the following details for IZ to be implemented. Many of these are directly assessed in this report, with the bolded items discussed further to follow:

3. (1) Official plan policies described in subsection 16 (4) of the Act shall set out the approach to authorizing inclusionary zoning, including the following:

> ***1. The minimum size, not to be less than 10 residential units, of development or redevelopment to which an inclusionary zoning by-law would apply.***
>
> *2. The locations and areas where inclusionary zoning by-laws would apply.*
>
> *3. The range of household incomes for which affordable housing units would be provided.*
>
> *4. The range of housing types and sizes of units that would be authorized as affordable housing units.*
>
> *5. For the purposes of clause 35.2 (2) (a) of the Act, the number of affordable housing units, or the gross floor area to be occupied by the affordable housing units, that would be required.*
>
> *6. For the purposes of clause 35.2 (2) (b) of the Act, the period of time for which affordable housing units would be maintained as affordable.*
>
> ***7. For the purposes of clause 35.2 (2) (e) of the Act, how measures and incentives would be determined.***
>
> ***8. For the purposes of clause 35.2 (2) (g) of the Act, how the price or rent of affordable housing units would be determined.***

9. For the purposes of section 4, the approach to determine the percentage of the net proceeds to be distributed to the municipality from the sale of an affordable housing unit, including how net proceeds would be determined.

10. The circumstances in and conditions under which offsite units would be permitted, consistent with paragraphs 2, 3 and 4 of section 5.

11. For the purposes of paragraph 2 of section 5, the circumstances in which an offsite unit would be considered to be in proximity to the development or redevelopment giving rise to the by-law requirement for affordable housing units.

(2) Official plan policies described in subsection 16 (4) of the Act shall set out the approach for the procedure required under subsection 35.2 (3) of the Act to monitor and ensure that the required affordable housing units are maintained for the required period of time.

7.3 Minimum Project Size

The minimum project size for a project to be subject to IZ is 10 units as stated in Ontario Regulation 232/18. Each local municipality may consider a higher minimum threshold if determined appropriate. Small projects will accommodate a lower RLV, which would be reduced further by IZ and make purchasing land in the market difficult. This threshold should be considered within the market evaluation of this report and as the PMTSA plans are better defined and minimum/maximum heights and densities are established.

For example, Toronto is currently pursuing a minimum IZ project size of 100 units.

As the PMTSA plans continue to advance, additional analysis may be necessary to determine a reasonable minimum project size for implementation.

7.4 Offering of Incentives

Incentives were not considered in this analysis outside of Downtown Brampton where development charge reductions are currently offered (a 50% reduction in DCs was assumed as recommended by planning staff). The financial results in this report therefore illustrate the most onerous approach to assessing impacts.

Notwithstanding the merits of not including financial offsets in this analysis (Section 2), some of the moderate market areas identified in this report are likely to have difficulty absorbing IZ without near-term market impacts. As assessed in Section 6, introducing IZ in concert with transit investment and planning changes in the ***emerging market areas*** would be beneficial as it ensures the policy is considered as land begins to transact and developers begin to make investment decisions. However, this could also delay/slow the pace of residential development as the market adjusts and continues to mature. Financial offsets can assist with eliminating these shorter-term impacts in the emerging market areas. Financial offsets can also enhance the attractiveness/viability of long-term affordable rental housing (i.e. perpetuity).

Notwithstanding the above, implementing IZ in concert with the significant public sector investments and planning exercises occurring across the Region, in addition to a reasonable transition policy, should limit the need to provide financial incentives. Implementing IZ through another less onerous process (e.g. bonus density rather than applied to all density) could also limit these negative impacts.

7.5 Determining the Price or Rent of Affordable Units

The Region and local municipalities must devise a process for establishing the affordable rental rates and sale values subject to IZ for both the current year as well as future years. Condominium and rental developers must be able to accurately pinpoint the rents and sale values they will be required to provide at the time of building occupancy, and for rental developers they must be able to understand the rents they might be able to charge over the entire affordability period.

The use of the CMHC Average Market Rent ("AMR") to calculate both sale values and rental rates has historically been a useful metric as the annual increase was typically predictable with decades worth of date available to trend future increases. An income-based approach is effective for assessing the affordable rates in the current year, but less so for projecting into the future. Approaches could include using a census base year and indexing the increase each year. Whichever method is chosen, it should be easy to interpret, predictable, and transparent to the development industry. A process for annual rental increases must also be developed.

7.6 The Provision of Offsite IZ Units

Ontario Regulation 232/18 states the following regarding offsite units:

5. The authority of a council of a municipality under clause 35.2 (5) (a) of the Act is subject to the following restrictions:

> *1. Offsite units shall not be permitted unless there is an official plan in effect in the municipality that sets out the circumstances in and conditions under which offsite units would be permitted.*
>
> *2. Offsite units shall be located in proximity to the development or redevelopment giving rise to the by-law requirement for affordable housing units.*
>
> *3. The land on which the offsite units are situated shall be subject to an inclusionary zoning by-law.*

4. Offsite units shall not be used to satisfy the by-law requirement to include a number of affordable housing units, or gross floor area to be occupied by affordable housing units, that applies to the development or redevelopment in which the offsite units are permitted.

The municipalities must decide if offsite units should be permitted to satisfy the requirements of an IZ policy. Of note, this analysis cannot consider the financial impacts of incorporating offsite units. While some circumstances might warrant the consideration of offsite units (e.g. a large master plan with multiple phases within a PMTSA), onsite units should be the priority.

7.7 Developing an Administrative Process for IZ

The Region and each local municipality must decide how "hands on" they want to be with IZ. There are several approaches that could be employed (or combinations, thereof), for example:

- **Government Managed IZ:** Peel Region and/or the local municipality take control of IZ units from the developer and administer these directly to qualifying households.
- **Developer Managed IZ:** The municipalities take a "hands-off" approach, allowing the developer to administer the IZ units.
- **Non-Profit Participation:** The municipalities require or encourage that the developer transfers the IZ units to a non-profit organization, or partners with a non-profit in another way.

The following subsections evaluate these options at a conceptual level to assist each municipality as they begin to assess their approach to IZ.

7.7.1 *Government Managed IZ*

While the municipality taking ownership or managing the IZ units would add administrative complexity and financial resources, the following benefits could also materialize:

- This provides an easy avenue for developers to satisfy IZ, as units would be sold or transferred to the municipality. Assuming the units are sold at the affordable price noted in this analysis, or the developer continues to receive the rental revenue associated with them, there should be no impact to the financial results in this report.
- The municipality could then administer the IZ units however they wish:
    - As affordable rental within the developer's mixed-income building.
    - As a one-time affordable ownership unit, possibly taking a portion of the appreciated sale value once that unit is resold.
    - As a perpetual affordable ownership unit like the Whistler Housing Authority model.

- This would also ensure that units are only sold/leased to qualifying households and the affordable supply could be protected over the long-term.
- However, this will also require that the municipality own and/or operate the homes over the long-term.

It is also noted that not all developers would prefer this option.

7.7.2 *Developer Managed IZ:*

Allowing the developer to either sell the affordable ownership units or own and maintain the affordable rental units would provide the least complexity, cost, and administrative burden to the municipality, however the following must also be considered:

- The municipality loses all control regarding how the developer might satisfy the IZ requirement (i.e. rental vs condo).
- A process must be established to ensure developers are only selling/leasing to qualified households and the affordability timelines are maintained. Like incentive programs for affordable housing, this can be achieved through annual occupancy reports from the developer that state the units to be sold/leased and the income of the purchaser/ tenant.
- A process for capturing a portion of the appreciated sale value of an affordable ownership unit once it is resold as well as a plan for how this money will be used to support affordable housing objectives.

7.7.3 *Non-Profit Participation*

It might also be possible to require or encourage developers to transfer the IZ units to a non-profit partner who will administer the IZ units on the developer's behalf. This would also ease the implementation of IZ from the developer's perspective, as IZ units could simply be transferred to a non-profit partner. The municipality could assemble a list of non-profit organizations who could be interested. This would require an accompanying administrative and financial process to define how units would be transferred, compensation, administrative considerations, and many others.

Again, assuming the developer receives the value of the affordable units as assessed in this report, there should be no impact to the financial results in this report. If long-term affordable rental housing (i.e. perpetuity) is required, this is may require non-profit participation. Hosting stakeholder outreach with non-profits would be a key first step to determine if the industry has capacity to fill this role.

7.8 Regional IZ OP Policies

While not required, the Region of Peel may consider complementary IZ policies in their OP. Given the uncertain nature of many of the local IZ policies at this early stage, the Region should continue to closely monitor the local implementation of IZ and work with each municipality to develop policies as this work advances. Notwithstanding the above, Peel could consider creating a set of policies to provide direction and support the local municipalities as they begin to assess implementation and local Official Plan policies.

7.9 Review and Update of the IZ Policy

Ontario Regulation 232/18 states that IZ will be reported on to Council at least every two-years:

7. (2) The council shall ensure that each report describes the status of the affordable housing units required in the by-law, including the following information for each year that is the subject of the report:

> *1. The number of affordable housing units.*
>
> *2. The types of affordable housing units.*
>
> *3. The location of the affordable housing units.*
>
> *4. The range of household incomes for which the affordable housing units were provided.*
>
> *5. The number of affordable housing units that were converted to units at market value.*
>
> *6. The proceeds that were received by the municipality from the sale of affordable housing units.*

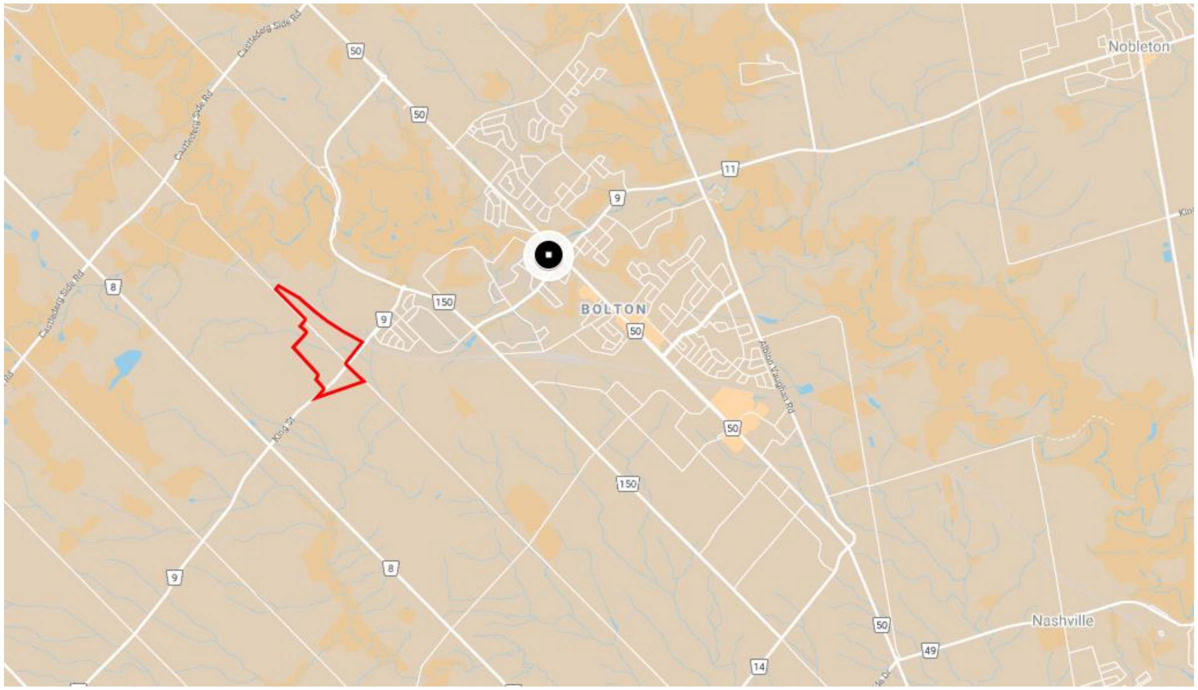
The Planning Act states that the Assessment Report (i.e. this NBLC report) must be updated and reassessed within five years. It is recommended that an earlier review occurs to ensure the market is adequately responding to the policy, which is recommended due to the uncertainty around COVID-19 as well as the fact that this is the first implementation of the policy in Ontario. Five-year reviews subsequent to this is likely appropriate.

7.10 IZ Transition Policy

As assessed throughout this report, the market will need time to adjust to an IZ policy. It is recommended that IZ be implemented alongside PMTSA plans and transit investment, but that the conceptual IZ policy be made publicly available as soon as possible. A transition period of one year from the time of implementation is likely sufficient.

Appendix A – Market Data

Actively Marketing Condominiums in Caledon

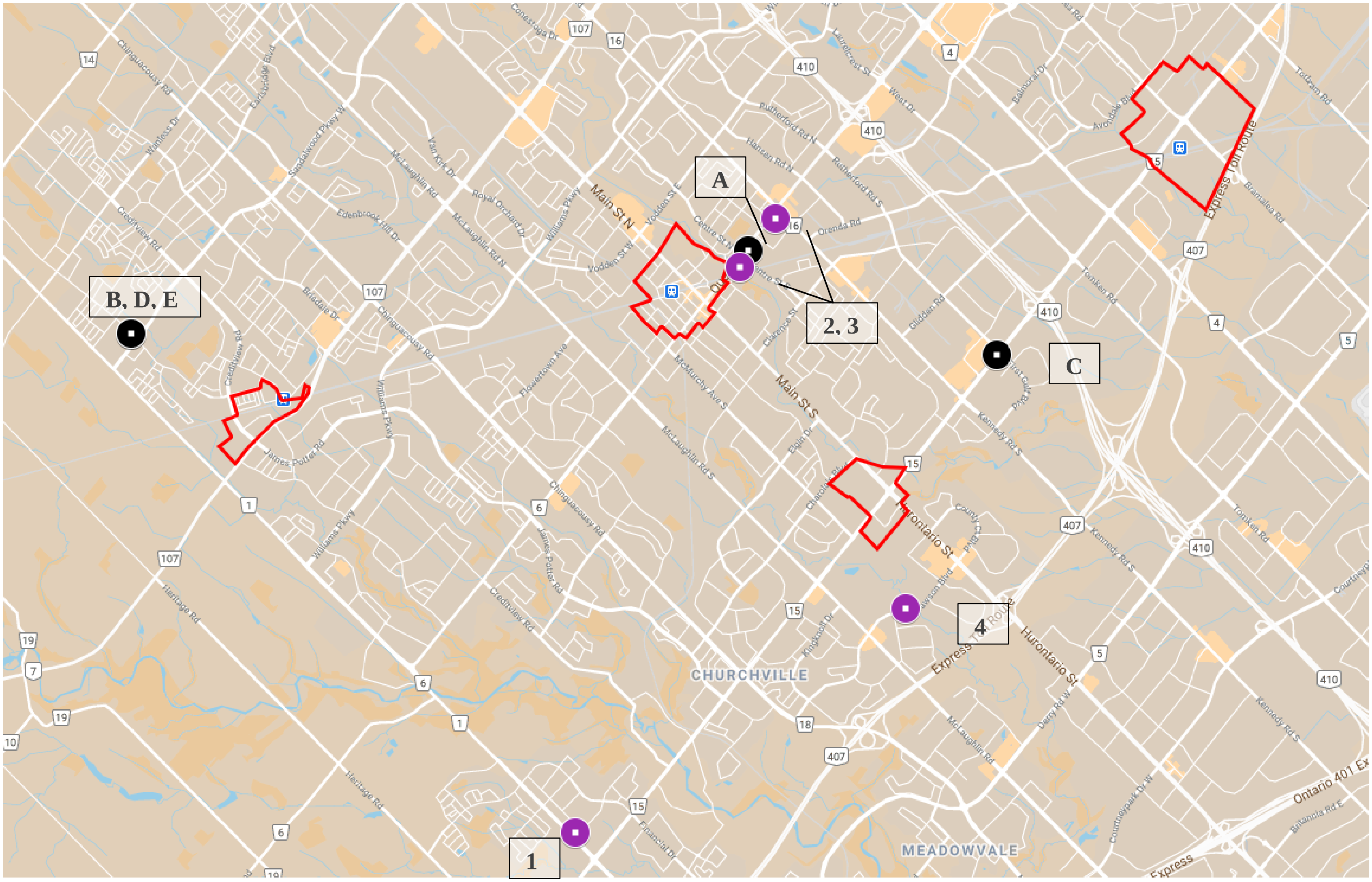


Project Name / Developer	Open Date	Status*	Storeys	Total Units	Released Units	Total Sales	% Sold	Available Units					Avg. $PSF**		Abs. ***	
								Size Range (sf)			Price Range		Org.	Curr.	70%	Overall
Brampton																
50 Ann *Brookfield Residential*	Feb-20	UC	5	73	73	33	45%	676	-	1,212	$498,900 -	$879,900	$722	$722	4 8	4 *8*
Total/Average (1 Project):			**5**	**73**	**73**	**33**	**45%**	**676**	**-**	**1,212**	**$498,900 -**	**$879,900**	**$722**	**$722**	**4**	**4**

Surveyed Actively Marketing (New) Condominium Apartment Projects
As of September 30, 2020

** Pre = Pre-Construction; UC = Under Construction; ** Avg. $PSF = Original values are based on total inventory, current values are based on remaining inventory; *** Abs. = Top number represents sales per month; bottom number represents the number of months the project has been on the market or the number of months to 70% sold. Source: Altus Group/RealNet Canada, Project Marketing Materials*

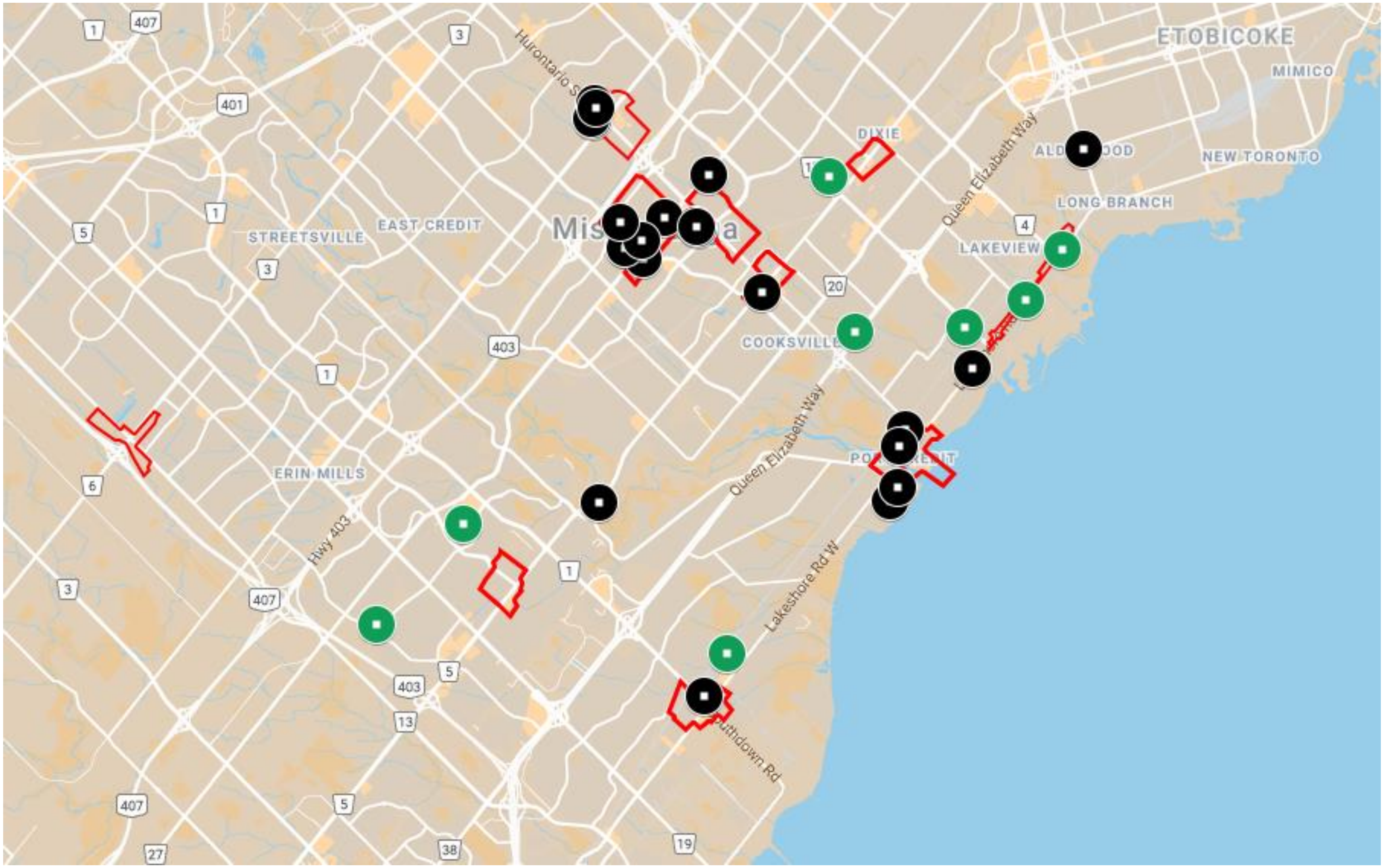
Actively Marketing Condominiums in Brampton (see tables on the following page – Black Represents New Actively Marketing Project, Purple Represents Resales within Existing Condominium Buildings)



Surveyed Actively Marketing (New) Condominium Apartment Projects As of September 30, 2020														
Project Name / Developer	Map ID	Open Date	Status*	Storeys	Total Units	Released Units	Total Sales	% Sold	Available Units		Avg. $PSF**		Abs. ***	
									Size Range (sf)	Price Range	Org.	Curr.	70%	Overall
Brampton														
Symphony Condominiums *Inzola Group*	A	Apr-18	UC	23	168	168	153	91%	1,005 - 1,037	$591,990 - $610,990	$555	$589	43 3	5 *30*
M Condos *Primont Homes*	B	Jun-18	UC	8	76	76	73	96%	836 - 1,356	$630,990 - $799,990	$623	$678	5 11	3 *28*
Stella At Southside *I2 Developments Inc.*	C	Oct-19	Pre	12	204	204	126	62%	380 - 1,051	$347,998 - $689,998	$799	$817	11 11	11 *11*
Mont Vert - South Tower *Primont Homes*	D	Feb-20	Pre	12	126	125	116	93%	648 - 965	$572,990 - $724,990	$761	$787	93 1	16 *7*
Mont Vert - North Tower *Primont Homes*	E	Feb-20	Pre	12	129	129	118	91%	616 - 877	$548,990 - $750,990	$804	$825	30 3	17 *7*
Total/Average (5 Projects):				**13**	**703**	**702**	**586**	**83%**	**380 - 1,356**	**$347,998 - $799,990**	**$716**	**$782**	**17**	**7**

** Pre = Pre-Construction; UC = Under Construction; ** Avg. $PSF = Original values are based on total inventory, current values are based on remaining inventory. *** Abs. = Top number represents sales per month; bottom number represents the number of months the project has been on the market or the number of months to 70% sold.; Source: Altus Group/RealNet Canada, Project Marketing Materials*

Actively Marketing Condominiums in Mississauga (see tables on the following page – Black Represents New Actively Marketing apartment Project, Green Represents Actively Marketing Stacked Townhome Project)



Surveyed Actively Marketing (New) Condominium Apartment Projects **As of September 30, 2020**													
Project Name / Developer	**Open Date**	**Status***	**Storeys**	**Total Units**	**Released Units**	**Total Sales**	**% Sold**	**Available Units**		**Avg. $PSF****		**Abs. *****	
								Size Range (sf)	**Price Range**	**Org.**	**Curr.**	**70%**	**Overall**
Mississauga													
Edge Towers *Solmar Development Corp.*	Oct-17	UC	35	323	323	308	95%	460 - 880	$485,900 - $901,900	$995	$1,060	35 7	9 *36*
Daniels City Centre - Wesley Tower *Daniels Corporation*	Aug-17	UC	43	503	503	493	98%	778 - 996	$613,900 - $732,900	$732	$789	59 6	13 *37*
Edge Towers 2 *Solmar Development Corp.*	May-18	UC	40	418	418	403	96%	492 - 1,423	$517,900 - $1,423,900	$958	$1,138	22 14	14 *28*
Avia *Amacon Developments*	Mar-19	UC	50	610	610	601	99%	925 - 1,214	$831,900 - $1,054,900	$869	$899	361 1	33 *18*
M3 - M City Condominiums *Rogers Real Estate Development Limited and Urban Capital Prop*	Oct-18	Pre	81	942	942	870	92%	413 - 1,214	$418,900 - $1,106,400	$886	$1,026	117 6	37 *23*
Exchange District - EX1 *Camrost Felcorp*	Apr-19	UC	60	595	595	583	98%	820 - 1,005	$905,400 - $1,049,900	$994	$1,104	226 2	*34* *17*
Avia 2 *Amacon Developments*	May-19	Pre	38	436	436	389	89%	770 - 1,468	$753,900 - $1,076,900	$734	$979	40 8	23 *17*
Exchange District - Ex 2 *Camrost Felcorp*	Sep-19	UC	42	437	437	410	94%	620 - 1,053	$771,400 - $1,154,400	$1,051	$1,244	106 3	*48* *12*
ORO at Edge Towers *Solmar Development Corp*	Feb-20	Pre	50	617	598	450	75%	555 - 1,849	$572,900 - $1,900,000	$1,028	$1,124	74 6	58 *8*
Condominiums At Square One District *Daniels Corporation & Oxford Properties*	Sep-20	Pre	45	539	539	379	70%	600 - 872	$566,900 - $841,900	$915	$965	1048 0	1048 *0*
EV Royale *YYZed Project Management and Nurreal Capital*	Nov-16	Pre	7	99	85	85	100%	N/A - N/A	N/A - N/A	$666	$683	30 2	2 *46*
Mississauga Square *Plaza*	May-17	UC	33	405	400	400	100%	N/A - N/A	N/A - N/A	$671	$663	152 2	10 *41*
Perla At Pinnacle Uptown - East Tower *Pinnacle International*	Jul-17	UC	34	316	316	238	75%	575 - 2,017	$510,000 - $1,326,000	$635	$814	8 27	6 *38*
Rise At Stride *Kingsmen Group Inc*	May-19	UC	13	132	132	96	73%	915 - 1,453	$799,900 - $1,455,900	$793	$1,007	19 5	6 *17*
Perla At Pinnacle Uptown - West Tower *Pinnacle International*	Sep-18	UC	15	152	152	119	78%	967 - 1,308	$749,000 - $856,000	$710	$756	8 14	5 *25*
Keystone - East Tower *Kaneff*	Feb-20	Pre	8	204	204	141	69%	608 - 1,384	$581,990 - $1,176,990	$830	$904	18 8	18 *8*
Brightwater 1 *Kilmer Group & Diamond Corp & DREAM & Fram Building Group & Slokker*	Sep-20	Pre	5	75	75	0	0%	501 - 938	$509,900 - $959,900	$976	$976	N/A N/A	0 *0*

Continued from Previous Page

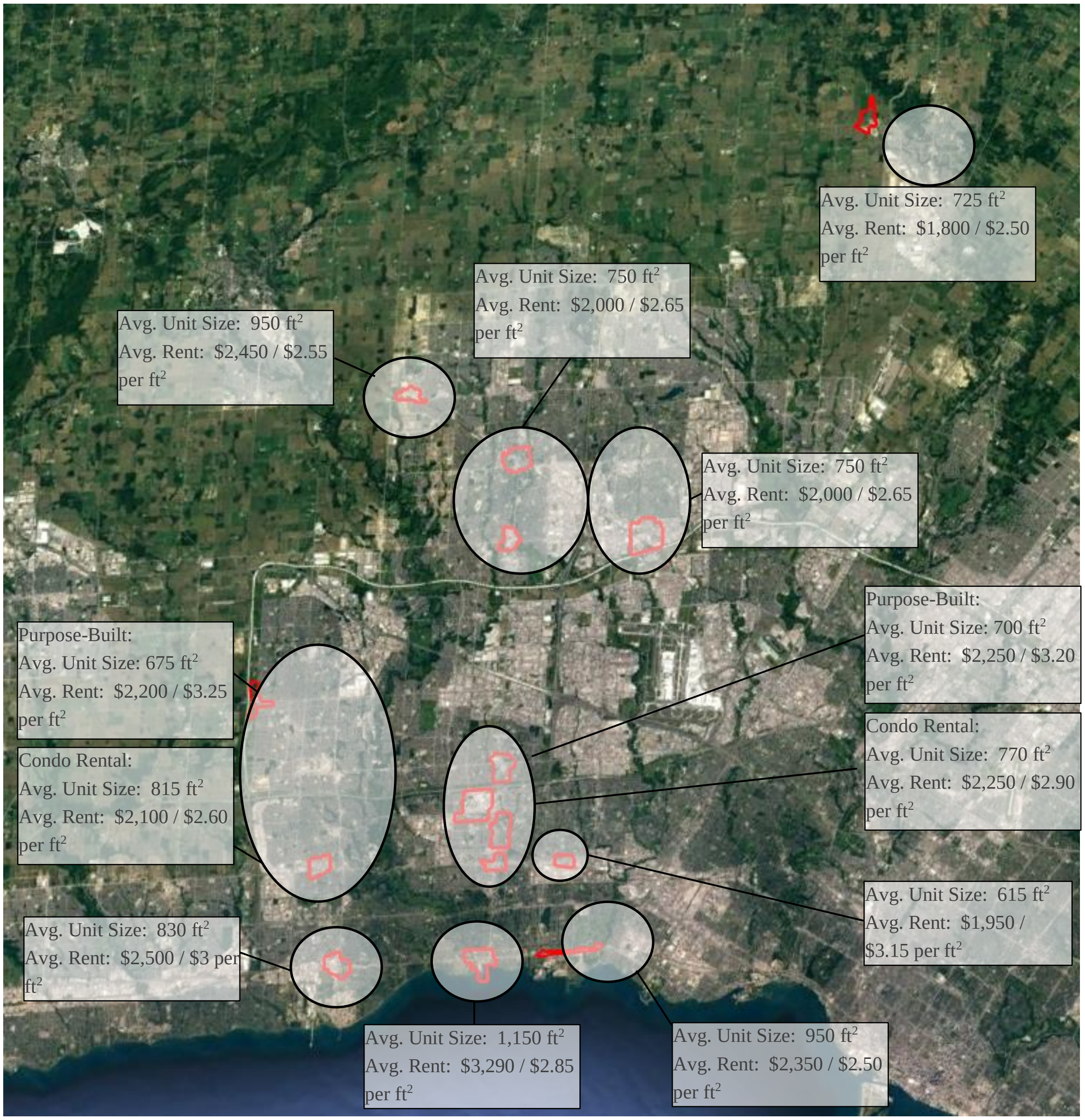
Surveyed Actively Marketing (New) Condominium Apartment Projects As of September 30, 2020															
Project Name / Developer	Open Date	Status*	Storeys	Total Units	Released Units	Total Sales	% Sold	Available Units				Avg. $PSF**		Abs. ***	
								Size Range (sf)		Price Range		Org.	Curr.	70%	Overall
Mississauga															
Artform *Emblem Developments*	Aug-20	Pre	17	336	336	279	83%	519	827	$540,990	$775,990	$925	$927	242 1	*242* *1*
Westport *Edenshaw Developments*	Jul-20	Pre	22	361	361	361	100%	954	954	$945,990	$945,990	$995	$992	106 3	127 *3*
Canopy Towers *Liberty Development Corporation*	Aug-20	Pre	34	497	497	370	74%	435	1,243	$450,900	$1,123,900	$852	$865	289 1	*289* *1*
Tanu *Edenshaw Developments*	Oct-18	UC	15	204	204	196	96%	986	1,705	$981,990	$1,948,490	$902	$1,038	15 9	8 *23*
S2 Stonebrook Private Residences *United Lands*	Jun-19	Pre	18	239	239	198	83%	695	1,447	$679,900	$949,900	$654	$736	14 14	13 *16*
Brightwater 2 *Kilmer Group & Diamond Corp & Dream & Fram Building Group &*	Sep-20	Pre	14	231	231	231	100%	538	985	$529,900	$1,039,900	$1,021	$1,021	N/A N/A	0 *0*
Total/Average (23 Projects):			**31**	**8,671**	**8,633**	**7,600**	**88%**	**413**	**2,017**	**$418,900**	**$1,948,490**	**$878**	**$961**	**45**	**18**

** Pre = Pre-Construction; UC = Under Construction; ** Avg. $PSF = Original values are based on total inventory, current values are based on remaining inventory.; *** Abs. = Top number represents sales per month; bottom number represents the number of months the project has been on the market or the number of months to 70% sold; Source: Altus Group/RealNet Canada, Project Marketing Materials*

Surveyed Actively Marketing (New) Stacked Townhome Projects As of September 30, 2020															
Project Name / Developer	Open Date	Status*	Storeys	Total Units	Released Units	Total Sales	% Sold	Available Units				Avg. $PSF**		Abs. ***	
								Size Range (sf)		Price Range		Org.	Curr.	70%	Overall
Brampton															
Reserve East Mineola *Queenscorp Group*	Apr-17	UC	3	146	146	113	77%	940 -	1,896	$629,900 -	$975,900	$519	$587	4 29	3 *41*
Way Urban Towns in Erin Mills *Sorbara*	Mar-18	UC	4	144	144	143	99%	1,318 -	1,318	$648,900 -	$648,900	$525	$538	29 4	5 *31*
20/Twenty Towns *Consulate Development Group*	Oct-19	Pre	3	148	148	137	93%	1,382 -	1,470	$769,900 -	$839,900	$564	$580	20 5	12 *11*
Eleven11 Clarkson *Saxon Developments*	Nov-18	Pre	4	136	84	66	79%	1,094 -	1,687	$738,900 -	$1,120,900	$637	$640	4 16	3 *23*
Stride *Kingsmen Group Inc.*	Dec-18	UC	4	124	124	118	95%	1,239 -	1,567	$825,900 -	$1,028,900	$670	$659	17 6	5 *22*
Way Urban Towns in Erin Mills - Phase 2 *Sorbara*	Sep-19	Pre	4	340	340	309	91%	999 -	1,349	$625,900 -	$738,900	$532	$541	44 6	25 *12*
Tuxedo Park Boutique Towns *Maple Valley Development Corporation*	Dec-19	Pre	4	24	24	15	63%	987 -	1,227	$699,990 -	$779,990	$627	$668	2 10	2 *10*
Anthem Modern Towns - Block A *Booth Developments*	Feb-20	Pre	3	24	24	15	63%	557 -	1,642	$473,450 -	$1,136,000	$716	$720	2 8	2 *8*
Anthem Modern Towns - Block B *Booth Developments*	Feb-20	Pre	3	73	73	60	82%	592 -	1,141	$491,360 -	$775,880	$680	$741	12 5	8 *8*
Total/Average (9 Projects):			**4**	**1,159**	**1,107**	**976**	**88%**	**557 -**	**1,896**	**$473,450 -**	**$1,136,000**	**$573**	**$616**	**10**	**6**

** Pre = Pre-Construction; UC = Under Construction; ** Avg. $PSF = Original values are based on total inventory, current values are based on remaining inventory.*** Abs. = Top number represents sales per month; bottom number represents the number of months the project has been on the market or the number of months to 70% sold; Source: Altus Group/RealNet Canada, Project Marketing Materials*

Figure 20: Rental Pricing Data of New/Modern Purpose-Built Rental Apartments and Private Condominium Rentals (source: NBLC rental survey and MLS data – averages and rounding utilized – September 2020)



Surveyed New Purpose-Built Rental Apartment Projects - Mississauga As of November, 2020												
Location	Project Name	Address	Date Built	Storeys	# Units	Vacant Units	Vacancy Rate	Available Units[1]	Availability Rate	Available Units[2]		
										Avg Rent	Avg Size	Avg $PSF
Hurontario C	The Huron	2465 Hurontario Street	2020	6	80	5	6.3%	5	6.3%	$2,264	700	$3.23
Erin Mills	Skyrise Rental Residences	2550 Eglinton Avenue W	2016	25	323	8	2.5%	14	4.3%	$2,214	674	$3.28
East End	Bridgewood Suites	1855 Bloor Street	2015	4	72	5	6.9%	5	6.9%	$1,997	580	$3.44
Total / Average (3 Projects):				**12**	**475**	**18**	**3.8%**	**24**	**5.1%**	**$2,179**	**660**	**$3.30**

1.Available units refers to units that are vacant or will be vacant in the coming months (e.g. currently occupied but tenant has given notice, undergoing renovation, etc.)
2.Average monthly and per square foot rents have been adjusted to include heat and water and exclude hydro.
Source: On-Site Leasing Agents and Project Marketing Materials.

nblc

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