Region of Peel

Affordable Housing Incentive Pilot Program – Final Report

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N. Barry Lyon Consultants Ltd.

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1.0 Introduction

The Region of Peel completed a Housing Strategy and Housing Needs Assessment in 2018 that supported the Region's updated Housing and Homelessness Plan. Like many municipalities in Ontario, the Housing Needs Assessment identified that many low and middle-income households in Peel Region struggle to secure ownership or rental housing that is affordable to their income level. Aside from small condominium units and lower quality rental apartments, the market in Peel generally supports pricing that is out of reach for many of these households.

The Housing Strategy has recognized that Peel has a role to play in providing support to low and middle-income households at various depths of affordability. This includes the legacy social housing stock, the existing market rental stock, as well as new affordable housing units. The Housing Strategy has set an annual target of 2,000 affordable housing units for low and middle-income households. The Housing Strategy further notes that a variety of unit types and sizes are to be encouraged, as influenced by demand characteristics.

To encourage more affordable housing, Regional Council endorsed the recommendations of these studies (Strategy 3 of the Housing and Homelessness Plan) to investigate the feasibility of implementing an incentive program to stimulate private sector investment in affordable housing. N. Barry Lyon Consultants Limited ("NBLC") has been retained by the Region of Peel to assist in creating this incentive program.

Beginning in 2019, the work program has involved several key background studies, consultation sessions, and other analyses to inform the feasibility and recommended direction and design of the Pilot Incentive Program. The following briefly describes this work, the key findings of which are summarized in more detail to follow:

Financial Assessment and Business Case:

The report was finalized by NBLC in November 2019 and explores the feasibility of developing an incentive program to encourage the delivery of affordable housing. The report highlighted the housing need identified by the Region's housing strategy relative to the supply being provided in the market and explored opportunities and challenges related to the delivery of more affordable housing options. Through the use of prototypical development proformas, NBLC explored the subsidy that might be necessary to incent the development industry to participate in an incentive program, the number of units that could be created annually with the estimated budget, and the identification of key challenges that might limit the success of the program.

The results of the report highlight the advantages and disadvantages of proceeding with an Affordable Housing Pilot Program that offers financial incentives and other non-financial tools to the private and non-profit/co-op sectors. The report also provides recommendations related to the depth of affordability, affordability term, tenure, and other key items that should be the target of an affordable housing incentive program.

Best Practice Report:

The report was finalized by NBLC in March 2020 and provides an overview of relevant incentive programs attempting to encourage affordable housing delivery by the development community (including non-profit organizations). The report identifies affordable housing incentives, tools, and implementation options that have proven effective in other jurisdictions in Ontario. Best practices, as well as weaknesses and challenges, are identified to provide a foundation of techniques and processes that have successfully resulted in the delivery of affordable housing in markets like Peel Region. The review therefore places an emphasis on Regional municipalities, but also includes single and lower-tier municipalities.

The purpose of this report was to inform the design and administration of the Peel's incentive program for affordable housing. A key aspect of this review was also to assess the most appropriate delivery mechanism and considered both a Community Improvement Plan and Municipal Capital Facility By-Law.

Stakeholder Consultation:

NBLC and Regional staff engaged in extensive consultations with each local municipality throughout this project. This included several meetings and presentations of findings, review of reports, and preparation of the draft program design in this report. Two separate consultation events with the development industry were also held:

- September 19th, 2019: This session was held early in the process to introduce the project, the project team, preliminary direction, and to receive early feedback to help guide the background analysis. NBLC hosted and moderated the discussion, which focused heavily on the economics of delivering affordable housing.
- May 12th, 2020: This session was held virtually due to the COVID-19 pandemic and was led by the Region with support from NBLC. The session presented the background work and preliminary program design to allow participants an opportunity to provide feedback on key items.

Final Incentive Program Design:

Upon completion of both background studies, NBLC, the Region of Peel, and each local municipality have worked together to create the framework of the incentive program. This resulted in a draft program design, which was presented to the development industry for feedback as noted above.

This report provides the final recommended program design elements, which includes specific recommendations on:

- Implementation mechanism;
- Eligibility requirements;
- Application process;
- Methodology for application review and prioritization;
- Funding allocation process;
- Requirements during the affordability term;
- Ongoing monitoring by the Region;
- Integration and coordination with local municipalities; and,
- Other relevant matters.

2.0 Housing Need in Peel

In the spring of 2018, the Region of Peel successfully completed its Housing Strategy that included a Housing Needs Assessment. This analysis was undertaken with the aim of providing input into a renewed Peel Housing and Homelessness Plan as required by the Housing Services Act and to satisfy the requirement for a Housing Strategy as per the updated 2017 Provincial Growth Plan. The updated Peel Housing and Homelessness Plan (2018-2028) and the Peel Housing Strategy (2018) was endorsed by Regional Council on April 5th, 2018. One of the key recommendations of the Housing Strategy was to investigate the potential of implementing an incentive program to assist with the creation of affordable housing by the private and non-profit sector at the thresholds identified by the Needs Assessment.

2.1 Region of Peel Housing Needs Assessment

The following represents the key findings and outputs from the Housing Needs Assessment that are most relevant to this assignment.

The Region's Housing Needs Assessment found that nearly 32% of all households in Peel Region were facing housing affordability issues, which is the highest proportion in the GTHA outside of the City of Toronto. The assessment determined that approximately 70% of low-income households and 30% of middle-income households were facing affordability challenges. These household groups correspond to the following definitions:

- **Low Income Households:** Households that fall within the 1st to 3rd income decile groups in Peel Region. These households generally earn a gross household income of $57,421 per year or less. These households can afford to pay no more than:
    - $1,259 per month for a rental apartment and $228,389 for a home purchase. The demand profiles within this group require both small and family size units, with roughly 65% requiring a two-bedroom home or larger.
- **Middle Income Households:** Households that fall within the 4th to 6th income decile groups in Peel Region. These households generally earn a gross household income of between $57,422 and $103,345 per year. These households can afford to pay no more than:
    - $2,584 per month for a rental apartment and $411,047 for a home purchase. The demand profiles within this group heavily favour larger family size units, with approximately 85% requiring a two-bedroom home or larger.

More housing that is affordable to these household groups is required to ensure housing is available to all Peel residents and to ensure that homelessness is prevented. The Needs

Assessment undertook a demographic, socioeconomic, and housing projection analysis and established a minimum target of 2,000 new affordable housing units each year, which is roughly split evenly between the low and middle-income groups. This target would represent around 30% of all new housing units over the next ten years based on trends and projections. Within the low-income group, a range of options including permanent, transitional, and supportive housing was identified.

Overall, the housing market in Peel is not servicing these low and middle-income households as the supply of housing that is affordable to these groups is not keeping pace with existing or projected demand. The housing strategy also identified that there was a significant shortfall of rental housing supply being added to the market, at both affordable and market rates, resulting in very low vacancy (~1% at the time of study).

2.2 Updated Affordability Thresholds for Financial Testing and Program Design

The Region of Peel has updated the maximum rental rates and sale prices identified by the Needs Assessment for the 2019 calendar year. This was done through the Region's annual Housing Monitoring and Measuring Program for the 2018 calendar year. These updated thresholds are detailed within Table 1. Each affordability threshold is slightly higher than what was noted in the Needs Assessment due to this update.

While these maximum purchase price and rental rate thresholds are useful in understanding the need from a high level, they must be related to a unit size to ensure that the housing being supplied at these rates are not exclusively small suites and to ensure the Region's incentive program adequately targets and satisfies the demand characteristics noted by the Housing Strategy. Given the findings of the Needs Assessment, which found that demand at these affordable rates are weighted towards larger family size units, it is important to ensure that these types of units are provided within the affordability thresholds identified by Table 1. To account for this, we have assumed that these "maximum" thresholds directly apply to a family size unit within a development, or a 1,000 square foot three-bedroom home (Figure 1).

It is also important to ensure that the rental rates are translated to a proportion of the CMHC Median Market Rent ("MMR"), to ensure compliance with senior-level government funding that uses this qualifying definition. The CMHC MMR is published annually by CMHC for major markets across Canada and captures all rental apartments in the market (old and new stock, new and long-term tenants) and reports on the median rates paid per-bedroom. The reported MMR is therefore often well below market rates or newly advertised units. Of note, many funding programs have recently switched from using the CMHC Average Market Rent ("AMR").

Table 1

Housing Needs Assessment Affordability Thresholds	
Household	**Affordability Threshold**
Ownership Tenure (Maximum Purchase Price)	
Middle Income	$411,870
Low Income	$229,852
Rental Tenure (Maximum Monthly Rent)	
Middle Income	$2,701
Low Income	$1,344

Figure 1

Ownership Housing

Middle Income: $411,870

Low Income: $229,852

1,000 Square Foot Three-Bedroom Unit

Middle Income: **$412** per square foot

Low Income: **$230** per square foot

Using per square foot values allow the thresholds to be applied to the suite mix and unit sizes in a building. For example:

A 1,000 square foot unit at $412 per square foot would cost $412,000. A 500 square foot unit would cost $206,000.

Rental Housing

Middle Income: $2,701

Low Income: $1,344

Peel MMR for Three-Bedroom Unit $1,587

Middle Income: **~170%** of MMR

Low Income: **~85%** of MMR

For rental apartments, CMHC reports the MMR for one, two, and three bedroom rental units across Peel Region. Converting the affordability thresholds to a proportion of MMR allow the thresholds to be applied to the suite mix and unit sizes in a building. See Table 2 for more detail.

Table 2

Affordable Rental Rates by Bedroom Type											
Suite Type	MMR	Middle Income					Low Income				
		Rent/mo.	%MMR	Mix	Sq. ft.	$/sf	Rent/mo.	%MMR	Mix	Sq. ft.	$/sf
1 Bedroom	$1,198	$2,050	~170%	15%	590	$3.48	$1,000	~85%	35%	590	$1.69
2 Bedroom	$1,366	$2,330	~170%	50%	725	$3.21	$1,155	~85%	40%	725	$1.59
3 Bedroom+	**$1,587**	**$2,701**	**~170%**	**35%**	**1,000**	**$2.70**	**$1,344**	**~85%**	**25%**	**1,000**	**$1.34**
Average	$1,418	$2,418	~170%	100%	800	$3.02	$1,150	~85%	100%	750	$1.53

As illustrated by Table 2, the affordable rental thresholds therefore relate to around 170% and 85% of the CMHC MMR for middle and low-income groups, respectively. This translates to an overall average of approximately $3.02 per square foot for the middle-income group and $1.53 per square foot for the low-income group. The suite mix noted in Table 2 is based on the findings of the Needs Assessment.

2.3 Market Context

Figure 2 illustrates how the affordability thresholds compare to home pricing and rental rates being provided by the market within Peel Region. NBLC completed a market survey within submarkets across Peel to understand the pricing within actively marketing or recently completed condominium apartment projects as well as the asking rents of new purpose-built rental apartments.

Unsurprisingly, the affordable thresholds for ownership housing of $412 and $230 per square foot were well below what is being provided by the market. As illustrated by Figure 2, new sale values for condominium apartments typically range from as low as $585 per square foot along the Queen Street East Corridor in Brampton to as high as $850 per square foot (or higher) in Port Credit.

The affordable rental thresholds illustrate a different trend. As illustrated by Figure 2, the middle-income affordable threshold of 170% of MMR (or around $3 per square foot), is either above or near market rental rates across Peel Region. Only Mississauga City Centre and Port Credit can achieve rental rates above this threshold. While this might seem illogical at first glance, this finding is simply because there is limited purpose-built rental development occurring in Peel.

The market in Peel Region heavily favours ownership housing over rental. Reviewing CMHC housing start data, rental apartments have accounted for roughly 5% of all new housing development in Peel Region between 1990 and 2018 and under 4% of all new housing activity since 2010. The vacancy rate for rental apartments is under 1% in Peel, indicating very little availability for households seeking rental accommodation. This situation is driving growth in rental rates and resulting in very little availability for households looking to rent in Peel.

Due to the fact that the market is providing a considerable supply of ownership housing, which includes low-density freehold and condominium homes (e.g. single-detached, townhomes) as well as condominium apartments (e.g. stacked townhomes, mid and high-rise apartments), the ownership threshold identified by the Needs Assessment should be well below market pricing. If the market were providing housing at these affordable thresholds, the Needs Assessment would not have identified a need.

For the rental market on the other hand, there has been limited new purpose-built rental supply brought to the market. The Needs Assessment has therefore identified a need for new rental housing at around market rates, which explains why the middle-income threshold is so high. The low-income rental threshold is well below market rates (85% MMR or around $1.54 per square foot).

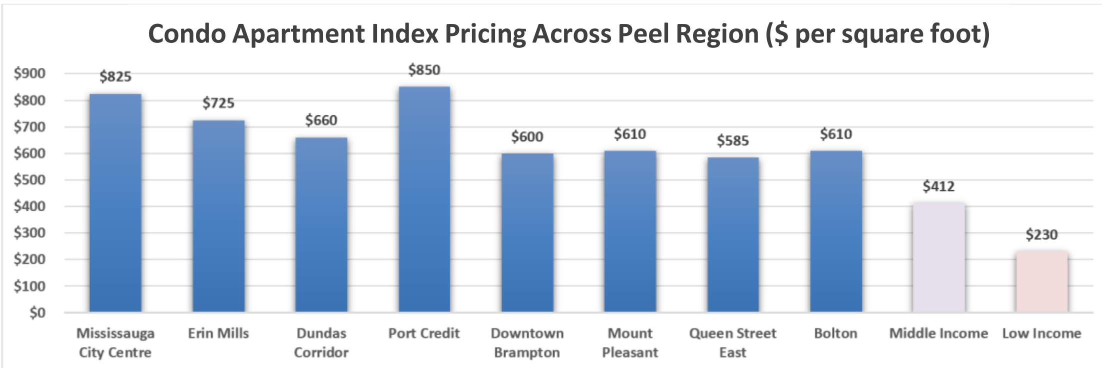
The situation described above is not unique across the GTHA. The Region of York for example is considering financial incentives to encourage the construction of rental housing at 175% of the CMHC MMR, to stimulate rental housing investment. Similarly, the City of Toronto was utilizing the former Development Charge Rebate Program for rental housing delivered at 175% of the CMHC AMR prior to the program being cancelled by the Provincial government.

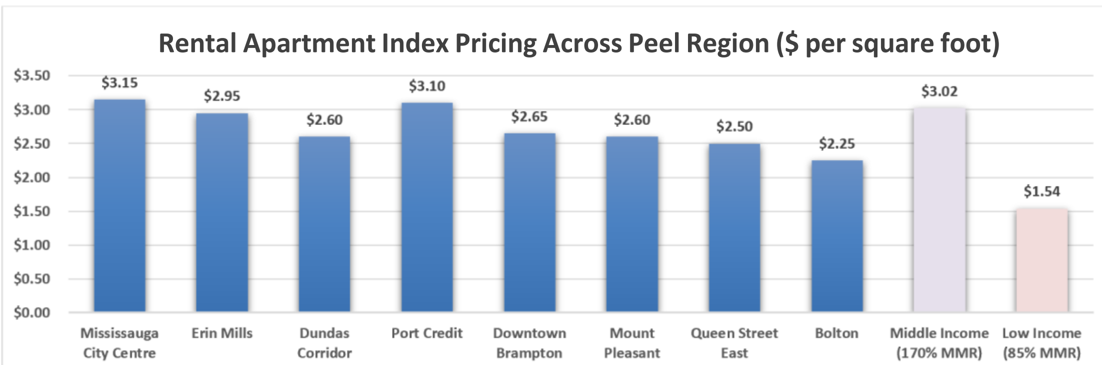
Generally, rental housing is challenged relative to ownership housing for many factors:

- Ownership projects will generate larger and faster returns than a rental building. Within a condominium building, developers can earn their return quickly once construction begins. A rental project will earn a relatively lower and stable cash flow for as long as they own the building, often taking many years of operations to pay back the initial investment.
- Rental projects are retained over the long-term, which introduces additional risk and uncertainty over rental income, operating expenses, capital repairs, new policy changes (e.g. rent controls), the future value of the building, and others. Ownership housing on the other hand will generate a sizeable return as soon as construction is complete, and the units have been transferred to the purchaser.
- Due to the long-term ownership of a rental building, rental developers must have the internal capacity to operate and manage a building over the investment period. Many condominium developers do not have these resources.
- Condominium projects will drive a higher land value, which makes it difficult for rental buildings to compete for land.
- Financing is easier to obtain for ownership projects. Typically, a developer must provide around 40% of a project's cost and the remainder can be financed. For condominium projects, revenue is collected through deposits on the sale of units, which will offset the required up-front equity. This does not happen for rental buildings, which will not collect revenue until the building is complete and tenants begin moving in.
- The above results in rental projects requiring a large up-front equity contribution, which can often be as much as twice the equity required for the same building that is condominium in tenure. This can be a significant barrier impacting the economics and attractiveness of a rental project.

These factors explain, in part, why rental housing does not happen on the same scale as ownership housing in the GTHA. In the current environment, rental housing remains attractive to a much shallower pool of market participants relative to ownership housing. These rental market participants often include REITS, pension funds, commercial developers, non-profit rental groups, and a small number of for-profit rental developers.

Figure 2: Data from RealNet Canada and NBLC Rental Market Survey (November 2019)





2.4 Existing Government Funding Programs for Affordable Housing

The following briefly highlights some of the affordable housing funding programs that are currently available.

2.4.1 Rental Construction Financing Initiative (`RCFI`)

The CMHC RCFI program provides low-cost loans encouraging the construction of rental housing across Canada. CMHC is aiming to provide up to $13.75 billion in loans over the next nine years to encourage the construction of 42,500 rental units across the Country. Funding is allocated on a competitive basis, and is not intended to be evenly distributed across the entire Country.

To qualify, a minimum of 20% of the units provided in a building must have rents at or below 30% of the median total income for all families in the reporting area for at least ten years. This corresponds to a rental rate of approximately $2,075 per month in Peel Region, or 130% of the

CMHC MMR for a three-bedroom unit. There are also environmental and accessibility standards and the total rental income must be at least 10% below the gross achievable rental income.

The program offers:

- very low interest rates (currently around 2%, which is often less than half the rate offered through a commercial lender);
- a 50-year amortization; and,
- other favourable lending conditions (higher loan to cost ratio, lower minimum debt coverage ratio).

These factors allow a rental developer to borrow more, reduce up-front equity requirements, and borrow more cheaply. These factors address many of the obstacles to developing rental housing.

Overall, the program is popular amongst developers. As of the writing of this report, there have been over 150 applications to the program from all over the Country, and 30 projects have been officially approved by CMHC to receive underwriting. There have been no applications to the program within Peel Region, however we understand that some developers are currently in preliminary talks with CMHC staff.

Given the modest affordability requirements, this program can generally be viewed as attempting to encourage market rental housing. As such, of the projects approved thus far, approximately 2/3 have been from for-profit developers, with the remaining 1/3 coming from non-profit groups and municipalities. It is important to understand that funding is delivered through a competitive process. There is no guarantee that a project meeting the minimum requirements will receive financing

2.4.2 National Housing Strategy Co-Investment Fund for New Construction

The CMHC Co-Investment Fund offers more favourable lending conditions for rental development relative to the RCFI program, however the affordability requirements are more onerous. To qualify, a project must provide at least 30% of units in a building with rents at or below 80% of the CMHC MMR for a minimum of 20 years.

As a result, there have not yet been any approved applications by for-profit developers. As of the writing of this report, 82% of approved projects have been for non-profit or co-op groups, with the remaining amount being municipalities, municipal housing corporations, and Indigenous groups.

Unlike RCFI, the Co-Investment Fund is largely targeting low-income rental housing. Many of the projects approved through the program are offering rents well below 80% of MMR, with some incorporating rent geared-to-income (“RGI”) within the project.

Both RCFI and the Co-Investment Fund apply to rental housing only.

3.0 Financial Analysis and Business Case Summary

In November 2019, NBLC finalized our Financial Analysis and Business Case for an Affordable Housing Incentive Pilot Program. The analysis assessed several key items:

- The housing need in Peel Region, as summarized in Chapter 2 of this report.
- The most appropriate and impactful package of local and Regional incentives to encourage the delivery of affordable housing by the private sector (including non-profits).
- Identify the subsidy gap required to be addressed through a funding program at various affordability levels as well as the incentive mechanism.
- Balance the required subsidy amount with the Region's ability to deliver the incentive program while also taking into consideration potential funding partnerships with the local municipalities and senior levels of government.
- Estimate of the number of units that could be created with the anticipated funding amount relative to the Housing Strategy targets.

An incentive program seeks to offset development costs to result in a viable development project. In specific relation to affordable housing, the incentive should offset the revenue that is lost by providing a unit at affordable rates, understanding that the delivery (i.e. construction) costs of an affordable and market home is very similar. To understand the incentive that might be necessary, we worked with Regional and local municipal staff to develop prototypical development case studies in eight locations across the Region. A proforma was then run for two scenarios, one with affordable housing and one without. The financial difference between the affordable and market scenario is noted to be the subsidy gap required that would allow a developer to acquire land in the market, develop the project with an affordable housing component, and earn a profit that is comparable to a project with no affordable housing (no profit assumed for the non-profit models). If the incentive program adequately addresses this subsidy gap, developers might participate in the program and deliver affordable housing.

The subsidy gap has been calculated assuming that a project will be implemented as a mixed-income building, where 30% of the building's gross floor area will include affordable housing and the remaining units will be market priced. The gap has been calculated for ownership and rental tenure, for non-profit and for-profit developers, a 25-year affordability term and affordability in perpetuity (for rental) and considering CMHC financing programs for rental housing.

3.1 Key Findings from the Analysis

The results of the analysis are summarized to follow:

- Table 3 summarizes the subsidy gap calculated for each test site in Peel Region across each affordability threshold and tenure. The results presented in Table 3 assume a for-profit developer would be implementing the project and the rental affordability period is 25 years.

Table 3

Ownership Scenario Gap Analysis – 30% Affordable GFA (equity does not include land)		
Gap in $2019 ($/Affordable Unit)	**Middle Income**	**Low Income**
Mississauga CC	$236,369	$314,374
Erin Mills	$177,705	$259,214
Dundas – WF Apt	$136,214	$215,199
Dundas – Stacks	$125,224	$220,299
Port Credit – Apt	$273,242	$355,414
Lakeview – Stacks	$155,628	$249,484
DT Brampton	$133,281	$214,811
Mt Pleasant – Apt	$111,150	$198,497
MtPleasant-Stacks	$103,114	$198,984
Queen St. E	$133,422	$208,411
Bolton (WF Apt)	$119,177	$204,083
Rental Scenario Gap Analysis – 30% Affordable GFA, 25 Years (equity include land)		
Mississauga CC	$82,246	$142,715
Erin Mills	$49,839	$108,124
Dundas – WF Apt	$36,282	$79,597
Dundas – Stacks	$62,329	$93,574
Port Credit – Apt	$142,197	$198,098
Lakeview – Stacks	$71,566	$110,098
DT Brampton	$31,434	$78,364
Mt Pleasant – Apt	$45,789	$89,054
MtPleasant-Stacks	$34,559	$65,332
Queen St. E	$47,848	$86,741
Bolton (WF Apt)	$103,847	$127,343

- Overall, the required subsidy gap for a developer to deliver affordable housing will vary widely across the Region. The subsidy amount will shift considerably depending on a wide range of factors related to land price, market rates, development form (e.g. townhome, concrete apartment), underground or surface parking, parking ratios, the affordability depth and number of units, specific property constraints or issues, and many others. Further, market values (land and purchase/rental rates) and construction costs are constantly shifting, which will also impact the subsidy gap calculated in this analysis.

- The results illustrated in Table 3 can also be considered the highest subsidy amount that might be required because it assumes the developer purchased land recently and at the highest and best use (i.e. high-density condo land value). Some developers may have purchased land many years ago or below the current highest and best use, which would significantly reduce the subsidy amount required.
- Affordable ownership housing is very expensive to subsidize relative to rental housing for a wide range of factors discussed in this report, but is primarily attributed to that fact that the affordable rates are well below market rates, resulting in a large revenue gap. The calculated subsidy gap is largest in Peel's strongest market areas.
- Affordable ownership is also generally a one-time affordability play where units revert to market price once the home is resold. While some new models attempt to implement long-term affordable ownership, these have not been tested in Ontario.
- There are other ways to support affordable ownership that is likely more effective at supplying this component of the housing continuum. Strategies include a second mortgage/ down payment assistance program, implementing an inclusionary zoning policy framework, and supporting non-profit affordable ownership groups who utilize a second mortgage structure (e.g. Options for Homes, Trillium Housing) and/or sweat equity (e.g. Habitat for Humanity).
- Subsidizing for-profit developers to deliver affordable ownership housing, using the methodology deployed in this analysis, does not appear to represent strong value for the limited financial resources that are available. Based on the Region's $2.5 million funding commitment, this might support the creation of 7 - 12 low-income ownership homes or 9 – 24 middle-income ownership homes.
- The subsidy gap calculated for affordable rental housing is lower, relative to affordable ownership, because the thresholds identified by the Needs Assessment are closer to market rates than the affordable ownership thresholds, which is a reflection of the lack of purpose-built rental housing being developed in Peel.
- Relative to ownership housing, a greater need is observed for additional rental housing supply across Ontario and in Peel specifically. Further, affordable rental housing will remain affordable for a longer period of time (20-25 year terms are typical, perpetuity is also possible). Rental housing therefore offers better value for money, however it must be acknowledged that the sector active in rental housing is much smaller than ownership tenure.
- As noted in Table 3, the subsidy required for a for-profit developer to deliver affordable rental housing ranges between $31,500 and $142,000 for the middle-income group and $65,300 to $198,000 for the low-income group. It appears the Region's initial $2.5 million

budget could support the creation of 12 - 38 low income rental homes or 17 – 79 middle-income rental homes.

- If a project were to receive CMHC financing, either through the Rental Construction Financing Initiative (RCFI) or Co-Investment Fund, the required subsidy amount would be lower. In fact, many of the case studies evaluated in this analysis might not require any additional subsidy if the project were to successfully receive CMHC financing and grants.
- Notwithstanding the above, CMHC funding is unpredictable and limited. Further, there have been no projects approved under these programs in Peel Region, and no project in Peel has yet to apply for RCFI as of the writing of this report. As such, the Federal funding programs should not be relied on exclusively to satisfy the rental housing need for middle and low-income households in Peel. Rather, any Regional incentive program should instead attempt to increase the number of affordable units, or the depth/term of affordability, of projects that have successfully received CMHC funding.
- The calculated subsidy amount can also shift significantly if a developer purchased land many years ago and is now redeveloping the site. This situation could involve vacant land that was not developed upon acquisition, commercial properties that are underutilized, shopping centres where the original land value has already been capitalized, properties with sufficient surplus area for intensification, and many others. In these situations, a developer might not have any land costs, which can have a significant impact on the economics of a project and the required subsidy amount calculated in this analysis. Our analysis assumes a developer is purchasing land in the market and moving forward with a development in short order.
- Requesting affordability in perpetuity, rather than a defined term of 25 years, represents strong value for money given the relatively modest subsidy increase calculated in this analysis. However, as discussed throughout this report, this request might require offsetting property tax exemptions over the affordability period. Even with property tax exemptions, there are likely to be developers that will not participate if perpetuity is mandated.
- Non-profit groups are an ideal partner to deliver affordable rental housing because they are not collecting a profit. There is generally more comfort offering public subsidies to these groups because there is less risk that they are being over subsidized and therefore enhancing their bottom line. These groups are also generally more inclined to provide affordability in perpetuity and engage in specialized housing such as housing with health supports and transitional housing.
- Despite the above, these groups also often struggle to develop new housing due to limited financial resources and human capital. Due to limited financial resources, these organizations are challenged to acquire land in the market and to provide the significant up-front equity required for a project to move forward. A for-profit developer will allocate

upfront capital equity to earn a profit later. A non-profit group will often struggle to replicate this process, especially considering that profit is not being targeted. These groups will often rely on free or discounted land in addition to funding to implement a housing project.

- A non-profit rental developer will theoretically require a smaller subsidy than a typical developer because they are not seeking profit, however they may also require assistance to purchase land and provide equity to the project, which could range between $10 and $100 million for the scenarios assessed in Table 3. With these considerations accounted for, non-profits may require a similar or larger incentive than a for-profit developer. However, some non-profit rental groups might require a lower incentive if they have just sold assets, received funding, and/or already own land, but this will vary depending on the individual position of each organization.

3.2 Key Directions for the Incentive Program

The following are the key findings of this report that have influenced the direction of the incentive program.

3.2.1 Depth of Affordability

The Housing Strategy identified a larger need for low-income housing, however our report recommended that the incentive program pursue middle-income households given the following:

- Subsidizing housing is very expensive, especially for low-income households. There are also fewer market participants that might be interested in developing low-income housing. Given that the Region only has $2.5 million at the current time, it is likely that the program would not receive significant market interest if low-income housing is pursued as there would not be enough funding available to result in a viable project.
- The Region is also undertaking many strategies aimed at delivering low-income housing, whereas middle-income households also face significant affordability issues, but generally do not qualify for subsidized housing.
- If the affordability threshold is set higher, especially for rental housing, it is possible that more purpose-built rental housing could be realized. This would provide many benefits to Peel’s housing market.

3.2.2 Tenure

Rental housing was the recommended target of the Region’s incentive program given the following:

- There is a significant need for both market and affordable rental housing across Peel Region.

- Rental housing can secure affordability for a long period of time, whereas affordable ownership programs largely only benefit the first purchaser and are resold at market rates.
- There are significant funding programs for affordable rental that are available through CMHC, and these programs are very popular and effective at encouraging both low and middle-income rental housing. No similar program exists for affordable ownership housing.
- Given the limited financial resources dedicated to the Pilot Incentive Program at the current time, stacking funding with the above noted affordable rental housing programs should be a major objective. This presents an opportunity to encourage more housing with assistance from senior government funding, whereas no similar opportunity currently exists for ownership housing.
- As noted previously, there are other ways to assist with the delivery of affordable ownership housing, such as a second mortgage/down payment assistance program and supporting non-profit ownership groups as opportunities arise.
- Similarly, an Inclusionary Zoning framework can also assist with the creation of affordable housing. Inclusionary zoning generally requires that a proportion of the uplift achieved through a rezoning will be provided as affordable housing. Considering that most developers in Peel specialise in the ownership sector, most would likely prefer to fulfill the affordability requirement through ownership tenure. Inclusionary zoning is currently being assessed by the Region and each local municipality.

As the program evolves in subsequent years, especially if additional funding is made available, consideration should be given to expanding the scope of the incentive program to potentially target low-income households and ownership groups. However, for the initial pilot program, it is recommended that middle-income rental housing be pursued, with the opportunity for groups to also propose low-income housing.

3.2.3 Length of Affordability

The results of our financial analysis indicate that requiring affordability in perpetuity does not have a significant impact on the subsidy requirement (5% increase or less) in the middle-income scenarios. The main reason is that the middle-income threshold is at or below market rates across Peel, so the difference between a defined term and perpetuity is insignificant at the current time. On the other hand, the perpetuity requirement in the low-income scenarios have a larger impact on subsidy requirement depending on the location. For most sites, the impact is between 15% and 40%.

Notwithstanding the mathematical quantification, some developers in the consultation session identified that perpetuity is not a major issue given the uncertainty, risk, and discounting over such a long period of time. However, others have noted that perpetuity is not viable and they would not participate without a defined term. All participants identified property tax exemptions as a key requirement if perpetuity were required. Non-profit groups will be more open to affordability in perpetuity than for-profit developers.

Requesting affordability in perpetuity represents very strong value for money given the minor subsidy increase calculated in this analysis. However, there is a risk that this requirement might result in fewer developers being interested in the program, especially considering the limited budget currently available. We recommend pursuing a defined affordability term for the Pilot, but score applicants higher if they pursue a longer term. If additional budget can be secured, the Region should consider increasing the required length.

3.2.4 Funding Amount

Many of the recommendations from this report are due to the limited budget allocated to the program at the current time. Even at the middle-income rental threshold, the $2.5M budget may not be enough to warrant significant interest.

The Region should consider increasing this amount and partnering with each local municipality for additional funding. The incentive program must also easily stack with funding from CMHC.

3.2.5 Flexibility

As noted in this report, the subsidy amounts shown in Table 3 will vary significant depending on many factors. There is no single subsidy amount that will work for every developer or every project. The Region should consider designing a program that takes this into consideration, allowing a developer to justify the subsidy they require.

Understanding that the subsidy gap will vary widely from project to project depending on a long list of variables, the Region should design an incentive program that scores individual applications based on the depth and length of affordability, number of affordable units provided, with or without CMHC financing, the level of subsidy requested, and a variety of other factors (e.g. access to services and transit, partnership with non-profit and social services, urban design, etc.). This will ensure that developers compete for the limited funding available, which should allow the Region to support the most deserving affordable housing project(s) each year.

3.2.6 Overall Conclusions

Overall, it appears that the Region can create affordable housing with an incentive program, with the rental sector representing the best value for money. However, without a significant budget increase, the incentive program will not achieve the housing targets established by Housing Strategy. Additional strategies will also be necessary to address all components of the Housing Continuum, as such the Region is pursuing other strategies to meet these targets.

4.0 Case Study and Best Practice Summary

NBLC's best practice report provided an overview of other incentive programs attempting to encourage affordable housing delivery by the development community (including non-profit organizations). This report therefore identified affordable housing incentives, tools, and implementation options that have proven effective in other jurisdictions in Ontario. Best practices, as well as weaknesses and challenges, were identified to provide a foundation of techniques and processes that have successfully resulted in the delivery of affordable housing in markets like Peel Region. The review therefore places an emphasis on Regional municipalities, but also includes single and lower-tier municipalities. The purpose of this report was to inform the design and administration of the Peel's incentive program for affordable housing.

4.1 Mechanisms for Delivering Financial Incentives

There are several mechanisms that a municipality can utilize to offer financial and non-financial support to the for-profit and non-profit development industry in exchange for affordable housing. The two primary mechanisms that allow a municipality to offer financial incentives for affordable housing are Municipal Capital Facility Agreements ("MCFA") and Community Improvement Plans ("CIP"). The following briefly describes each mechanism.

One of these tools is required to allow the delivery of financial incentives due to Section 106(3) of the Municipal Act, which prevents municipalities from assisting development through the granting of bonuses.

4.1.1 Community Improvement Plans

A CIP is a tool that enables municipalities to achieve broad planning and economic policy objectives by offering financial incentives to attract private investment. Through Section 28 of the Planning Act, municipalities must adopt policies within the Official Plan and approve an implementing by-law to designate a community improvement project area, which can be restricted to a specific location(s) or be municipality wide. Common objectives of a CIP can include downtown / neighbourhood renewal, affordable housing, office development, transit-oriented development, brownfield remediation, retail investment, energy efficiency improvements, and many others. Section 28 (1.1) of the Planning Act specifically defines affordable housing as a community benefit that can be the sole objective of a CIP. The Act also allows Regional municipalities to target affordable housing through a CIP (4.0.1).

To implement a CIP, there must be Council direction to prepare the Plan, the Official Plan must have enabling provisions, a by-law must be passed designating the community improvement project area, the draft CIP must be circulated to the Ministry of Municipal Affairs and Housing (for review, not approval), a formal public meeting must be held no earlier than 20 days after public notice has been given, and the final plan must then be approved by Council. A Community Improvement Plan also carries appeal rights through Section 28(5) of the Act, which allows any party who has written to Council or made an oral submission at a public meeting to appeal.

Section 28 of the Planning Act loosely defines the types of incentives that can be used through a CIP. The Act generally allows for the acquisition, preparation, and disposition of land by the municipality as well as the offering of grants and loans. The Act 28(7) generally states that "*the municipality may make grants or loans, in conformity with the community improvement plan, to registered owners, assessed owners and tenants of lands and buildings within the community improvement project area*". Grants and loans can be offered to partially or wholly cover eligible costs (but not exceed eligible costs), which can include anything from site preparation, development, construction, redevelopment, and other related items. Agreements of the grant or loan can be registered against the land so that a municipality is entitled to enforce the provisions of the agreement (e.g. depth of affordability and affordability term). Municipalities may also offer property tax relief through a CIP, however only for eligible heritage and brownfield properties. For other community improvement objectives, property taxes can be addressed through grants (i.e. TIG).

Common incentives within a CIP includes grants for development charges, tax increment grants ("TIG"), application and building permit grants, feasibility study grants, façade improvement grants, capital grants to offset construction costs, construction financing, offering municipal land in support of a community improvement, parking rate reductions, fast tracked application reviews, and many others.

The specific objectives of the CIP will ultimately influence if the community improvement area is municipality-wide or restricted to a specific geography. For example, a municipality seeking to revitalize their downtown will specifically define the boundaries of the downtown and define the type of investment they hope to see. In situations where the community improvement objectives are broader, such as attracting major office employment or affordable housing, the CIP might apply municipality wide. Understanding that the need for affordable housing is often observed across a municipality, rather than a specific neighbourhood or area, many affordable housing CIPs are municipality wide, or within major built-up areas if the municipality's borders contain rural or greenfield lands.

Municipalities may also develop specific eligibility requirements for various incentives as well as evaluation criteria. Eligibility criteria will specifically outline the requirements that must be met by all applications to the program. Evaluation criteria can be used to prioritize eligible applications and/or determine the magnitude of incentive offered. The City of Brampton for example has a CIP in place for the downtown that offers a 50% reduction in development charges for eligible applications, which can be increased up to 100% reduction based on how the application scores relative to the evaluation criteria (e.g. adjacency to major transit, mixed-use, sustainability, urban design, etc.). Other CIPs will use evaluation criteria to prioritize the applications received if the request for funding exceeds the amount of funding available each year. Of note, if a CIP is municipality-wide, locational evaluation criteria can be incorporated (e.g. more points if located in a downtown, major corridor, growth area, etc.).

The Planning Act generally does not speak to amending a CIP and what changes might require formal amendment (subject to public meeting and the relevant process noted above) to the by-law and program. Many municipalities state in the CIP by-law what can be changed and what cannot be changed without formal amendment. Many programs state that the evaluation and processing criteria, the boundaries of the CIP geographic boundaries, discontinuation of any incentive, and other minor changes can be made without a formal amendment of the CIP, so long as the general goals and objectives of the CIP are maintained. Many programs also state that any changes to the eligibility requirements, changes to the existing incentives, introduction of new incentives, and other more significant changes might require a formal amendment.

Section 28(7.2) of the Planning Act also allows local and regional municipalities to participate in each others CIP. The Section states "*The council of an upper-tier municipality may make grants or loans to the council of a lower-tier municipality and the council of a lower-tier municipality may make grants or loans to the council of the upper-tier municipality, for the purpose of carrying out a community improvement plan that has come into effect, on such terms as to security and otherwise as the council considers appropriate, but only if the official plan of the municipality making the grant or loan contains provisions relating to the making of such grants or loans*". This policy therefore would allow all local municipalities to participate in the Region of Peel's incentive program without the need for separate local programs.

4.1.2 Municipal Capital Facility Agreements / By-Law

A MCFA is like a CIP in that it offers a municipality the flexibility to provide financial incentives to the development industry in exchange for affordable housing. While the definition of what constitutes a municipal capital facility is narrow, affordable housing is specifically permitted. As such, a MCFA is commonly used in Ontario as a mechanism to encourage affordable housing, however it is limited in its ability to achieve other planning and economic objectives relative to the flexibility of a CIP (e.g. major office, downtown renewal, brownfield remediation, etc.). Its use beyond affordable housing is therefore limited. Of note, the City of Toronto's successful Open Door affordable housing incentive program is administered through a MCFA.

A MCFA is enabled through Section 110 of the Municipal Act, which states that municipalities can enter into an agreement with non-profit and for-profit developers to provide incentives in exchange for affordable housing. Incentives can include giving or lending money, giving, leasing, or selling property, guaranteeing borrowing, and reducing wholly or partially development charges and property taxes. The specific language of the MCFA as it relates to grants, through Section 110(3) of the Municipal Act, is "*Despite section 106, a municipality may provide financial or other assistance at less than fair market value or at no cost to any person who has entered into an agreement to provide facilities under this section and such assistance may include…giving or lending money and charging interest*". The Region's legal staff have stated that this loose language can be interpreted broadly to include any type of grant (e.g. TIG, application and building permit grants, capital grant, etc.).

The MCFA therefore allows a municipality to offer land, a wide variety of grants, as well as the additional permission of reducing or eliminating the payment of property taxes (a CIP can only offer a TIG). The level of assistance is therefore like a CIP, with a few added permissions.

To enter into a MCFA, a municipality must first pass a Municipal Capital Facility By-Law that must define affordable housing, define the eligibility requirements, include references to current acts and legislation, include a summary of the provisions that agreements must contain, and other language as required by the Act. The Region of Peel has an in force Municipal Capital Facility By-Law (41-2003), however it is out of date and will require updating. Amending the existing by-law will be easier and less time extensive to implement relative to a CIP, which generally requires a few reports to Council to formally repeal and replace the existing by-law with a new one. Implementing the by-law also does not carry the same appeal rights of a CIP. A MCFA is therefore easier to implement and adjust over time relative to a CIP.

Once the by-law is in force, a municipality can then enter into individual agreements, referred to as Municipal Capital Facility Agreements, with selected projects. These agreements will explicitly characterize the project, if the project is meeting or exceeding the definition of affordable housing in the by-law, detail the incentives being offered, and other similar items.

Section 110(9) of the Municipal Act also allows local municipalities to offer incentives through a Regional MCFA. For example, if the Region of Peel enters a MCFA with an affordable housing project in Brampton, Brampton could offer any of the incentives permitted through a MCFA through the Region's MCFA. Alternatively, local municipalities can implement their own CIP that aligns with the objectives of the Regional MCFA, however two separate programs can result in administrative complexity for interested participants.

It is noted that unlike a CIP, a Municipal Capital Facility By-Law must be municipality-wide and cannot be restricted to a specific location. However, the Region can implement evaluation criteria that incorporates locational requirements in a similar fashion as a CIP. Both a CIP and MCFA can be administered as an annual proposal call or applications can be received on a rolling basis for approval.

4.2 Case Studies

In total, NBLC provided a detailed assessment of five affordable housing incentive programs in Ontario, which included the City of Toronto, Region of York, City of Peterborough, Region of Waterloo, and the City of Cambridge. We also highlighted some other programs in less detail, including the City of Greater Sudbury, City of Barrie, and others.

The following highlights three of the more relevant case studies.

4.2.1 City of Toronto Open Door Affordable Housing Program (MCFA)

The City of Toronto implemented their Open Door Affordable Housing incentive program in 2016, with a targeted objective of creating more affordable rental options in the City. Key characteristics of the program are:

- Implemented through a Municipal Capital Facility By-Law, which was selected over a CIP due to the easier path to implementation, greater flexibility to adjust the program, and other noted benefits.
- Both non-profit and for-profit developers are permitted, partnerships are encouraged.
- Applies City-wide.
- The program only allows rental units to be incentivised. Mixed-income buildings can apply, however only the affordable rental units can request funding.
- Rental units must be 100% of the CMHC Average Market Rent (AMR) or below, for a minimum of 30 years, and unit sizes are to generally adhere to the City's design guidelines for affordable housing. Rental rates must also include utilities, or if the tenant pays utilities that are separately metered, the rents must be adjusted downward by an amount determined by the City.
- There are income restrictions, where the gross annual income of a households cannot exceed four times the annualized monthly occupancy cost for the housing unit. It is the developer's responsibility to conduct income verification at both initial occupancy and unit turnover.
- There are tenant selection restrictions depending on the depth of affordability (e.g. tenant comes from the City's waitlist or the developer may select dependant on income verification).
- The program is administered through an annual RFP, generally following the below process:
    - February: the updated program guidelines and call for application is made available, including the detailed application form.

- April: Last day to submit written questions.
- May: Closing date for applications.
- May-July: Application review
- August: Staff recommendations are finalized, and staff report drafted
- September: Consideration of staff report by the Planning and Housing Committee
- October: Consideration of staff report by City Council.

- There are ongoing requirements of the developer to provide annual reports to the City to confirm compliance with the MCFA, including:
  - Rental rates, turnover, income verification, and other matters.
  - If the applicant is found to be in non-compliance, they are required to repay the remaining balance of the original funding amount, with interest.
- The City requires detailed information about the project, the developer, as well as financial information (i.e. capital and operating budget/proforma).
- Proponent may adjust the rental rates of a unit by no more than the prevailing rent increase guideline established each calendar year pursuant to the Residential Tenancies Act, 2006, S.O. 2006, c. 17 or any successor legislation, to an amount not to exceed 100% AMR.

Available Incentives:

The City provides a suite of financial incentives to encourage affordable housing. Incentives includes the following:

- Available to all applications that successfully receive a score 70 points or greater, the City provides the following relief from City fees and charges:
  - Development charges.
  - Property taxes for the length of affordability.
  - Planning application fees.
  - Building permit fees.
  - Parkland dedication fees.

  - Expedited planning review. Approval through Open Door does not guarantee Planning Act approvals. However, a dedicated staff is assigned to coordinate and expedite the provision of comments and approvals.

- For applicants that beat the minimum affordability requirements, the City will also provide capital grants. There is roughly $10 million in capital grants available annually over the past several years. Applicants must support and justify any request for capital funding and be aware that those applicants requiring smaller amounts of funding will be more competitive, score higher in the process, and be more likely to be approved. Larger requests for funding should be justified with lower rents (below 100% AMR) and longer terms of affordability (beyond the minimum 30 years).

- Applicants can select which incentives they require to make the project viable, including capital grant amounts.

- There are no caps or limits in place for the number of units that can receive exemptions from City fees and charges each year. Similarly, there is no cap or limit on a per-unit or per-project basis for capital grants, however funding for the capital grants is limited. Open door applications are also encouraged to pursue all other sources of available funding. Any additional secured or unconfirmed funding sources should be noted in the application.

General Process:

- The City holds an annual call for applications for affordable rental housing. As part of this annual call for applications, the City issues the program guidelines that explain eligibility requirements, the incentives available, definitions and process, and other relevant items.

- The application form requires the applicant to provide qualitative details of the project/building, the affordability and term proposed, capital and operating financial plans (e.g. expected rents, development and operating costs, etc.), the incentives being requested (exemptions and capital grants), development schedule, consultation and outreach plans, and other items.

- Applications are then evaluated by the Open Door Review Committee. Successful applicants will meet with City staff and review next steps, including a timeline for City Council approvals. This approval will provide applicants the exemption from fees and charges as they arise as well as ongoing property taxes once the project is complete.

- Within 60 days following Council approval, successful applicants will sign the Contribution Agreement with the City which will include details of the affordable housing to be provided by the applicant and the contributions to be provided by the City.

- Applicants will then continue to work with the dedicated City Planning staff member who will assist with facilitating planning approvals with the goal of streamlining/expediting the approval process.

- As the development application is approved, a Municipal Capital Facility Agreement is approved by Council that allows for the exemption from development charges and property taxes. The agreement is registered on the property's title. A separate implementing by-law is required to exempt the project from property taxes, which is recognized by MPAC.

- Applicants become exempt from all City fees and charges available through Open Door once their application to Open Door is approved. If capital grants are offered, these become available to the proponent at first building permit. Exemption from property taxes begin once the building is complete and a by-law is passed by Council.

Application Review:

Open Door applications are reviewed by a committee composed of staff from the Affordable Housing Office, City Planning, Shelter Support and Housing Administration, City Legal, Corporate Finance, and Real Estate Services. The committee reviews and scores all applications utilizing the criteria in **Figure 3**. Applications must receive a score of at least 70 to be approved for fee and charge exemptions, whereas the capital grants are offered based on the merits of the proposal and the availability of funding. There is no clear formula or evaluation criteria that illustrates the methodology for approval of capital grants. The committee will meet with and interview applicants during the review process.

Of note, in 2019 the City retained NBLC to complete a value for money analysis on some of the 2019 applications that were under review to assist with the evaluation process. As part of this assignment, we created a tool that allows the City to evaluate the financial performance and value for money of an application. It is not clear how this tool will be incorporated into the future review of applications.

Figure 3: Evaluation Criteria for the Review of Open Door Applications

	Criteria	Available Evaluation Points
1	Affordability details (including size and mix of units, and length and depth of affordability as described in the application).	10
2	Development Qualifications	10
3	Management Qualifications	10
4	Corporate Financial Viability	10
5	Project Design	15
6	Capital Funding and Financing Plan	20
7	Operating and Management Plan	20
8	Development Schedule	5
	TOTAL	**100 Points**

Funding and Units Created:

The magnitude of funding and the number of affordable units created on an annual basis through Toronto's Open Door program is unmatched in the Province of Ontario. The City provides over $80 million in funding to Open Door annually, creating between 1,200 and 1,500 affordable rental units each year. Many projects have also secured funding from other levels of government, as in 2017 the City contributed $85M in grants and fee/charge exemptions, with approved projects also securing $43M in funding from the Provincial and Federal governments. In 2017, over 1,200 new affordable rental units were created across 19 discrete projects delivered by both the private and non-profit sectors.

Overall Findings:

The City of Toronto was not meeting their affordable housing targets and implemented Open Door to address this issue. Since the annual proposal call began in 2017, the City has been able to leverage well over 1,000 affordable rental units (100% AMR or below) in each year since this process began. The City has been able to leverage such a large number of affordable rental units due to the significant funding commitments allocated to the program, which was over $85 million in 2017 (we understand an even higher amount was allocated in 2018, although not officially reported as of the writing of this report). This funding commitment includes exemptions from City fees and charges, including development charges, capital grants, and an estimate of the present value of property tax exemptions. Additional funding from senior levels of government was also secured by many of the projects. While Peel Region has allocated approximately $2.5

million to a potential affordable housing incentive pilot program at this time, it is noted that not many projects approved through Open Door have secured less than $2.5 million in funding. However, the economics of development and the affordability depth targeted within Peel Region is not identical to Toronto (Toronto has a much stronger market in terms of pricing, land values, participants in the market, etc.).

The range in subsidy within individual projects is also significant. Between 2016 and 2017, projects have received between $23,250 per affordable rental unit to $484,250 per affordable rental unit. This is due to differences between projects such as depth of affordability, affordability term, offering specialized housing, the cost of land, the financial position of the organization, return expectations, and many others. This is consistent with the findings of NBLCs Business Case for an Affordable Housing Pilot Program summarized previously, which found that the subsidy necessary for a specific project will vary widely across Peel Region depending on several different factors. A process to evaluate the merits of a proposal from a qualitative and quantitate perspective should be developed in Peel, similar to Open Door.

The MCFB is also an effective tool to administer the incentive program. The tool allows for flexibility in defining affordability and the process involved with little administrative difficulty in adjusting specific eligibility requirements, if any adjustments conform to the definitions in the enabling by-law. If the by-law does require amending, this is also easier to do relative to a CIP. Given that the Region of Peel is interested in only offering capital grants, rather than exemptions or grants tied to fees and charges, the MCFB is an appropriate tool for this purpose. The mechanism also allows for local participation through a single Region program, like a CIP. The MCFB would also allow Peel to negotiate the grant offered to a specific project through the review and approval process, which is what occurs with Open Door. Given the range in subsidy that might be required for a specific project, this process provides the flexibility to negotiate and adjust funding to the incentive program and specific applicants from year-to-year.

The annual call for proposal is also an effective technique for delivering incentives. This process allows developers predictability in funding availability, overall approval timing, and allows them adequate time to prepare an application and the timing of future calls for proposal (generally the same time each year). The process also allows a municipality the opportunity to organize a review committee and review all completed applications within a window of time, allowing for efficient review of proposals, meetings with applicants, and reporting to Council for approval.

Given the depth of affordability being targeted (100% AMR or below) by Open Door, the City of Toronto has incorporated tenant selection and landlord reporting requirements that ensure only qualified tenants occupy the units. This includes requiring that certain tenants come from the centralized wait list, some units be available for tenants with housing benefits, income verification being the responsibility of the landlord, occupancy reporting, and other similar items.

Unlike many other affordable housing incentive programs in Ontario, Toronto requires a significant amount of financial details about a project to assess financial viability, construction costs, the magnitude of incentives being requested and value for money, if a project is leveraging other funding, the capacity of the organization to carry out the project, and other similar considerations. This process is more onerous to administer but ensures that applicants are assessed with a degree of scrutiny prior to municipal funds being released.

4.2.2 Region of York Purpose Built Rental Incentive Program (CIP)

Similar to many municipalities in southern Ontario, the Region of York is experiencing housing affordability issues for both low and middle-income households. Home prices are increasing rapidly and there is a lack of new purpose-built rental housing occurring. To address the lack of rental housing, York Region is in the process of implementing an incentive program to assist with the development of rental housing for middle-income households. To implement this program, the Region has recently (September 2019) approved a development charge deferral program and are in the process of developing a Regional CIP that is expected to be brought to Council for approval in 2020.

The primary target of this program is purpose-built rental housing with rents at or below 175% of the CMHC AMR. This rental amount is similar to the top-end of the middle-income household range identified by Peel's Housing Strategy, which was around 170% of AMR. The rational for selecting this high of a threshold, which is generally unique for an incentive program (most target 100% AMR or below), is that households earning between $80,000 and $120,000 are not eligible for community housing, but the market is also not supplying options that meet their needs. There is also a significant lack of rental housing developed in the Region. Peel's Housing Strategy came to similar conclusions.

Key characteristics of the program are listed below:

- The program only applies to rental housing, and the entire building must be rental in tenure for at least 20 years. Mixed-tenure buildings are not permitted.
- Both for-profit and non-profit agencies are permitted.
- The average across the entire building must be 175% AMR. A building cannot receive incentives unless the entire building meets the affordability requirement.
- The local municipality where the development is located will provide similar or better incentives, relative to the Regional incentive.
- Projects are encouraged to secure funding from senior levels of government and other sources.

- The CIP Project Area refers to boundaries of the Urban Area and Villages as identified by the Regional Official Plan, which includes most of the built-up area in York Region. However, greater incentives are available for projects within the Regional Centres and Corridors, which significantly reduces the geographic extent of the program.
- Application and approval will occur on a rolling basis, not through an annual RFP call.
- There are ongoing requirements of the developer to provide annual reports to the City to confirm compliance with the CIP contribution agreement, including:
  - Rental rates, turnover, tenure verification, and other matters.
  - If the applicant is found to be in non-compliance, they are required to repay the remaining balance of the original funding amount, with interest.

Available Incentives

Provincial Bill 108 amended the Development Charges Act, 1997 allowing developers to lock in development charge rates on the day upon which a site plan or zoning application for the development is made. Furthermore, rental developments would not have to pay development charges until the earlier of occupancy permit or first occupancy of the development, and continue to pay, in equal annual installments, for the ensuing five years.

- The Region has supplemented the amendment of Bill 108 by implementing development charge deferrals noted in the table to follow. The development charge deferrals proposed are interest free, providing a better incentive than what is offered in Bill 108. For a proponent to opt into the Region's development charge deferrals, they would forgo the phased payments offered under Bill 108 in favour of an interest free, longer-term development charge deferral duration.

- The 36-month DC deferral is available to all rental projects, regardless of affordability level and location in the Region. The development charges are set at the time of development application and carry no interest charge.

- The 5-20 year deferral requires that rents be below 175% of AMR and other requirements as noted in the table. These longer deferral programs will be reviewed every 3-years to assess the impact and success. The project must also be in the CIP Project Area.

- Projects providing units at 125% of AMR are not subject to the requirement that 50% of units must have two or more bedrooms to eliminate any conflict that might exist with applicants applying to the CMHC Rental Construction Financing Imitative and also to reflect the greater depth of affordability provided.

Duration of Regional DC Deferral	Requirements
36 Month	Purpose-built rental of four storeys or more, with no affordability criteria, must remain rental for 20 years.
5-Year	As above, with affordability criteria applied (175% AMR*)
10-Year	5-Year Deferral Requirements **AND** • Located in Regional Centres and Corridors or specific Local Centres
10-Year	5-Year Deferral Requirements: **AND** • Minimum of 100 dwelling units **AND** • A minimum of 50 per cent (%) of the total number of dwelling units in the purpose-built rental building must have two (2) or more bedrooms**
20-Year	5-Year Deferral Requirements: **AND** • Located in Regional Centres and Corridors or specific Local Centres **AND** • Minimum of 200 dwelling units **AND** • A minimum of 50 per cent (%) of the total number of dwelling units in the purpose-built rental building must have two (2) or more bedrooms**

Note: *AMR stands for Average Market Rents, which refers to the average actual rents charged for private apartments in York Region calculated and published annually in the Canada Mortgage Housing Corporation (CMHC) Fall Rental Market.* *****Note****: Units that achieve one-hundred and twenty-five (125) per cent (%) of Average Market Rent (AMR) or less for private apartments, by bedroom type, may not have to satisfy the unit split requirement. In addition, those units that achieve one-hundred and twenty-five (125) per cent (%) of Average Market Rent (AMR) or less for private apartments, by bedroom type, shall be excluded from the total number of units used to calculate the unit split calculation. Those units that have been excluded from the unit split requirement, as a result of achieving one-hundred and twenty-five (125) per cent (%) of Average Market Rent (AMR) or less for private apartments, by bedroom type, must be maintained at this level of affordability (one-hundred and twenty-five (125) per cent (%) of Average Market Rent (AMR) or less for private apartments, by bedroom type) for the duration of the development charge deferral after which time they must still be less than, or equal to, one-hundred and seventy-five (175) per cent of Average Market Rent (AMR) for private apartments, by bedroom type. These units must remain less than, or equal to, one-hundred and seventy-five (175) per cent of Average Market Rent (AMR) for private apartments, by bedroom type, for the duration of the restrictive covenant as identified under Term 'H' of this policy.*

- According to the Region's staff report, "*Structuring the thresholds under 5, 10 and 20-Year increments encourages the development of larger, affordable purpose-built rental buildings in locations that align with York Region's city building initiatives. This policy will promote the development of complete communities by increasing live/work opportunities through the provision of affordable housing options for the local workfor*ce".

- The deferral is for the Regional portion of development charges only.

- The decision to implement deferrals relative to more impactful exemptions or capital grants was due to limited funding availability.

The DC deferral program does not require a CIP to implement, however a description of the incentives is expected to be included in the CIP to provide a wholesome picture of the incentives being offered for purpose-built rental projects. The CIP is required to allow for application fee waivers and to enable local municipal participation. The CIP is currently being prepared by the Region and has not yet been approved.

Local Municipal Participation:

The Region will only enter into a Development Charges Deferral agreement if the local municipality has provided a similar, if not better, deferral, exemption, or other incentive, for the proposed development.

The Region is currently consulting with the local municipal partners to determine the programs to be included in York Region's Affordable Housing CIP. In the case that a municipality wants to provide waivers or grants, the York Region draft CIP is proposed to be structured to allow for the participation of municipal programs. As currently proposed, the Region will provide development charge deferrals and waive application fees, and local municipalities will provide either the same incentives offered by the Region or any other incentive permitted by a CIP, including many types of grants.

This process would allow developers to apply to a single CIP, with a single application, and receive both local and Regional incentives. The ability for local municipalities to participate in York Region's affordable housing CIP is intended to reduce redundancies and encourage consistencies in the implementation of rental incentives throughout York Region. Several municipalities are developing local housing strategies and are working on providing rental incentives, including local official plan amendments, to allow for participation in the Region's CIP.

General Process:

A formal application template is currently being developed to guide interested developments in reviewing the necessary criteria and applying for the incentives. The following generally outlines the application process:

Step 1: Pre-Application Consultation

- Proponent initiates pre-application consultation with Local Municipal staff:
  - Pre-application only refers to development applications (subdivision, site plan, condominium)

   - Proponent interest in accessing incentives established
   - Local Municipal support and interest in providing incentives established in principle at the staff level

- Review CIP for program requirements

Step 2: Regional Staff Contacted

- Local Municipal staff contacts Region to express interest in accessing incentives
- Local Municipal staff provides Submission Details and associated pro forma work
- Staff at either the local municipality or Regional level may request clarification or additional supporting documentation

Step 3: Regional Staff Confirm eligibility

- Regional staff confirm eligibility for incentives (including confirmation of local municipal support in principle)

Step 4: Evaluation of Submission and Documentation

- Proposal evaluated by Regional staff based on proponent submission

Step 5: Regional Staff Draft Agreement(s) to enter into with the Proponent

- Regional staff draft Agreement(s) to enter with proponent based on Regional Council recommendations
- Documentation is finalized by Legal and corresponding legal fees are covered by the proponent

Step 6: Review and Monitoring of New Purpose-built Rental Units

- Staff will continue to monitor growth of new purpose-built rental units across York Region in the annual measuring and monitoring exercise and report the outcomes of the CIP to Regional Council

The Region's process to consider incentives therefore requires local municipal staff support for a development prior to regional consideration. Once support of a development is committed to by both municipal levels, local municipal staff will be instrumental to ensure delivery of rental units through the development review and approval processes. This process therefore places local municipalities at the forefront of the Regional incentive program.

The Region is also not proposing an onerous application review process. Approval will likely be qualification based, rather than a qualitative and quantitative review. Local municipalities can implement a more detailed review criteria, depending on the package of incentives offered.

Funding and Units Created:

The decision to focus primarily on development charge deferrals was a cost consideration. The deferral of development charges can be financed by the City, whereas a TIG or other grant requires direct funding from the municipality to the developer, which impacts the tax base.

The deferral program will be available to a maximum of 1,500 units over a three-year period. Staff estimate that the net present value cost to the Region, based on current development charge rates, would range from approximately $4.18 million to $14.19 million. This estimate assumes that all 1,500 units would use the program and the range in value is dependent on the length of the deferral. This translates to a funding commitment of between $2,787 and $9,460 per unit and represents the financing cost to the Region. Estimates for the CIP incentives have not yet been calculated.

As per a Region staff report, “although this can impact development charge collections for York Region over the next 20 years, the corresponding benefits to providing rental housing supports social development and economic growth across the Region”.

Staff will report back to Council prior to the end of this Council term, on the results of the rental incentives provided and provide a recommendation on whether additional steps should be taken to further facilitate affordable, purpose-built rental development.

No units have been created through this program.

Overall Findings:

The development charge deferral program was just recently implemented, and the CIP has not yet been approved. It is therefore too early to comment on the success and challenges of the program. However, the proposed direction provides some valuable insights for the Region of Peel.

The Region of York is targeting middle income rental housing, which is a similar direction being considered by Peel, with similar rational provided by both municipalities. Given the focus on middle-income households, there is less emphasis on tenant selection, income verification of tenants, and financial review of a project’s capital and operating budget relative to other municipal incentive programs. York Region has purposefully selected a process that is as easy to administer as possible with few complications/requirements for developers. This is generally appropriate considering that they are looking to encourage a high depth of affordability.

Of significant relevance to Peel Region, York's CIP not only encourages local municipal support, it requires it. The Region's CIP will enable local municipalities to participate in offering incentives through the Region's CIP, eliminating the need for multiple CIPs at the local and Regional level, the requirement for application and approval to both levels of government, and eliminating as much redundancy as possible. This process would also encourage consistency in program implementation and reduce risk to developers of potentially only securing one municipality's approval for incentives.

The Region expects that the local municipality will take a leadership role in meeting with prospective applicants, directing them to the local and Regional incentives, ensuring a project meets the eligibility requirements for both municipalities, conversing with the Region about the application, offering support for the application, coordinating submission of the application to the Region, and working with the Region to ultimately seek approval for both layers of incentives. The Region will only consider an application if it is already supported by the local municipality. The Region's program can therefore be viewed as an implementing mechanism, with some financial support from the Region, for local municipalities to offer their own incentives and lead the delivery of affordable housing. This was generally viewed favourably by the local municipalities, who are typically the first point of contact when a developer is interested in developing. The affordability challenge is also unique in each local municipality.

The primary issue impacting the future success of this program is the very limited incentive package being offered at the current time.

4.2.3 City of Peterborough Affordable Housing Incentive Program (CIP and MCFB)

The City of Peterborough is somewhat unique in that they deploy both a CIP and a MCFB as part of an incentive program to developers to encourage more affordable housing. The purpose of the program is to stimulate the development of affordable housing in the City of Peterborough. Of note, the City also has a separate CIP to encourage revitalization in the City's Central Area, with no focus on affordable housing. The incentive program was most recently amended in 2012.

The City utilizes the CIP to offer grants that refund municipal application fees and charges, development charges, and property taxes. The City utilizes the MCFB to provide full property tax relief and development charge exemptions. Both mechanisms are used collectively to encourage affordable housing. Key Characteristics of the program are as follows:

- Both for-profit and non-profit organizations can apply.
- Both rental and ownership tenure is permitted, however only non-profit organizations are permitted for affordable ownership housing. Not all of the incentives will apply to ownership groups (i.e. property tax relief).

- Rental projects must remain affordable for at least 20 years inclusive of a five-year phase out.
- Affordable rental housing is defined as 100% of the CMHC AMR for CIP incentives, and 90% of the CMHC AMR or below for the MCFB property tax exemption.
- Affordable ownership housing is defined as a purchase price at least 10 percent below the average resale purchase price.
- Applicants can seek other funding sources from senior levels of government. The project can also stack the incentives available through the CIP and MCFB.
- No restrictions on tenant selection requirements.
- The MCFB applies City-wide. The CIP includes the majority of the City, excluding rural areas that are not currently built-up with adequate services and transit.
- Mixed income projects are eligible; however, the incentives only apply to the affordable units.
- Applicants must submit both qualitative (e.g. project and applicant details) as well as quantitative (capital and operating budget/proforma) details.
- Application and approval occurs on a rolling basis, not through an annual RFP call.
- A recommendation on the application is made by Staff and forwarded to City Council, along with a Contribution Agreement signed by the applicant. If the application is approved by Council, the Contribution Agreement is then executed by the City. Final decisions with respect to applications and the allocation of funds are made by City Council.
- Construction must commence within six months of approval and be completed within one year of approval (with some exceptions).

Incentives Offered

MCFB Incentives:

- **Property Tax Exemption:** Approved projects will be fully or partially exempt from paying property taxes for up to ten years. Similar to the process of Toronto's Open Door, an implementing by-law is necessary to designate the property as a Municipal Capital Facility to permit the tax exemption.
- **Development Charge Exemptions:** Depending on the mechanism selected, the City will either waive development charges through the MCFB or offer an equivalent grant through the CIP.

CIP Incentives:

- **TIG:** A ten-year TIG where the increase in property tax as a result of the development is refunded to the developer annually through a grant. 100% of the increase in property taxes is refunded for the first five years, reducing by 20% each year after that. After ten years, the project is required to pay the full property tax rate. The amount of the tax grant shall not exceed the total value of the work that resulted in the reassessment. This program would not exempt property owners from an increase in municipal taxes due to a general tax rate increase or a change in assessment for any other reason after the property has been improved, except by reason of an assessment appeal.
- **Development Charge Grant:** A grant is offered to offset the cost of development charges, subject to the availability of funding. The grant will be provided at the time of building permit. Continuation of the Development Charges Program requires funding through the annual Capital Budget and is subject to City Council approval.
- **Municipal Fees and Charges:** This program would waive most municipal fees normally required for planning approvals (e.g. zoning by-law amendments, minor variances, severances, site plan control, cash-in-lieu requirements, etc.). The City will waive fees for a planning approval at the time of application. Any cash-in-lieu requirements will be waived at the time approvals are granted.

Stacking of CIP and MCFB Exemptions

The affordability requirements differ slightly, with the CIP requiring 100% AMR and the MCFB requiring 90% AMR. The vast majority of projects pursue both programs, and therefore provide rents at 90% AMR. City staff have also indicated that most projects receive all incentives available through the CIP and MCFB, in addition to capital funding through senior levels of government.

The MCFB is used to offer the property tax exemption for ten years, at which point the TIG offered through the CIP kicks in for the following ten years. Projects therefore receive up to 20 years of property tax relief. While the MCFB allows the City to offer up to ten years of property tax relief and to fully or partially reduce property taxes, this flexibility has not been utilized. All projects approved through the program have therefore been granted a full property tax exemption for ten years in addition to the ten year TIG. The CIP is also used to offer exemptions for municipal fees and charges.

While the City can use either the MCFB or the CIP to offset development charges, City staff have indicated that the MCFB is the primary tool that is used. This is because the MCFB allows the City to waive the payment of this charge, which is then funded through the property tax base over time. The CIP offers a grant to refund the payment of a development charge, which requires that the CIP have an adequate budget to offer this grant.

Incentive/Contribution Agreement

- Approval through the CIP and MCFB requires the execution of a contribution agreement that will be registered on title. If a rental building that is receiving financial incentives is sold, the new owner of the rental building must enter into an agreement with the City ensuring that the rental units stay affordable for the remaining duration of the 20-year affordability period.
- The agreement will include a list of the benefits being conveyed to the housing provider, including the estimated present-day monetary value of all incentives.
- If the housing provider does not carry out its obligations under the agreement, the housing provider shall pay to the City the entire amount of benefits conveyed under the agreement, together with any applicable costs and interest.
- The housing provider is required to report on the rents achieved at the building annually to ensure compliance.

Funding and Units Created

Since 2014, the City has created 259 affordable units through eleven separate projects, representing approximately 52 units per year over this time. The average number of units created per project is also modest, typically around 23 units on average, with no single project exceeding 65 affordable units. The City does not provide aggregate reporting on the magnitude of incentive provided to each of these projects, however the City has indicated that most projects receive a funding amount of around $80,000 per unit, exclusive of any funding available from senior levels of government.

Not included in the above figures, the City recently approved (February 2019) a new affordable housing project at 461 Paterson Street in central Peterborough. The project will provide 8 affordable rental units at 80% AMR that will be affordable for 20 years. Some of the units (up to 25%) will be available for rent supplement agreements and the project will require annual reporting to the City on tenants, incomes, and rent levels. The project was approved with the following funding:

- CIP: $225,500 total will be funded through the CIP, of which $172,000 is an estimate for the 10-year TIG. The remaining charges are waived cash-in-lieu of parking and parkland, and planning application and building permit fees.
- MCFB: $141,000 through a DC exemption and $115,000 is an estimate for the 10-year property tax exemption.
- Senior Government Funding: $1.08M through Federal Provincial Capital Funding, through the IAH program.

- Total City Contribution: $478,500 or $60,000 per unit.
- Total Funding Contribution: $1.56 million or $194,500 per unit.

City staff have recently indicated that this project did not successfully secure the senior government capital funding and is therefore not moving forward at this time.

Overall Findings:

Peterborough offers a significant package of financial incentives relative to other municipalities in Ontario. The impact of the incentive package has, however, been modest due to the deep minimum affordability requirement (90-100% AMR) and also because the market in Peterborough for multi-family development is fairly modest, which limits the number of active developers that might consider pursuing the program. This has limited the number of affordable units created through the incentive program to only 259 units since 2014. The City also notes that most applicants to the program are non-profit developers, due to the depth of affordability required and general lack of private developers active in affordable housing.

Like many incentive programs in Ontario, Peterborough offers a fixed subsidy amount. While easy to administer, this limits participation to only projects where that subsidy is sufficient. If a project requires slightly more, there is no avenue for that developer to request additional funding and will generally not apply to the program. Similarly, there may be instances where the City over subsidizes a project. This contrasts with the City of Toronto program, where developers are able to request and justify the financial support they require.

The combined effect of the CIP and MCFB has been effective at encouraging affordable housing delivery through the waiving of application fees, development charges, and offsetting property taxes for up to 20 years. Despite this significant package of incentives, the City has noted that senior level government funding is also often required for projects to be successful. The program also applies to most of the City to cast as wide of a net as possible while also ensuring that new affordable housing will locate in areas that are services by amenities and transit.

The City also identified several challenges with the program:

- The program does not run through an annual RFP call or other similar process. Applicants can submit at any time and applications can be approved at any time. Funding is available on a first-come first-serve basis. Staff have indicated that this is not preferred as it is difficult at administer and coordinate review of application and receive approval from Council due to the unpredictability of applications.
- Many applicants also require senior level capital funding to result in a viable project, which is in part due to the depth of affordability required and the lack of capital funding from the

City. The new OPHI funding, which is largely replacing the IAH program, only permits non-profit participants, which will further impact the ability of for-profit developers to participate in the City's program.

- Using both the MCFB and CIP can be onerous from an administrative perspective, as separate agreements and by-laws are required.
- While the TIG is an attractive tool for municipalities, it also produces uncertainty regarding the grant that is required to be delivered to the developer each year. Changes in assessment value and tax rates make it difficult to estimate how much the City should budget, which is exacerbated in this situation because the TIG does not begin until 11 years after the project is complete (once the ten year property tax exemption is complete).
- There is a need to better evaluate applications from a financial perspective, especially when funding is made available to for-profit developers. Applications are largely assessed from a qualitative perspective currently.
- The City hopes to review the incentive program next year to make changes to address the above issues.

4.3 Key Findings and Direction for the Pilot Incentive Program

4.3.1 Incentive Mechanism

Both the MCFB and CIP are effective tools for delivering incentives to the development sector in exchange for affordable housing. Both tools allow a municipality to offer identical incentives, with the MCFB permitting additional incentives that allow for partial or full exemptions from property taxes and development charges (a CIP can only address property taxes and development charges with offsetting grants). Both tools would also allow each local municipality to participate in the Region's MCFB or CIP without the need for their own separate program. Both tools can also carry eligibility and evaluation criteria and be administered on a rolling basis or as an annual RFP call.

The main difference between the two mechanisms appears to be with approval, implementation, and administration. The MCFB is the easier of the two to approve and only requires that Council approve a by-law. A CIP on the other hand requires a statutory public meeting, consultation with the Ministry, and other requirements stated in the Planning Act. There are also very limited appeal rights for a MCFB, whereas a CIP can be appealed by any individual who submits a written or oral submission. The MCFB also allows greater flexibility to administer the program and make changes, for example:

- In the City of Toronto's MCFB, affordability is defined as no less than 25 years and with rents at or below 100% of the CMHC AMR. The City then releases program guidelines every year that applicants respond to. The guidelines state all the eligibility and evaluation criteria. Recently, the City increased the minimum affordability term from 25 to 30 years within the guidelines, which still complies with the by-law and therefore requires no formal amendment to the enabling by-law. The City could similarly drop the affordability threshold to 80% of the CMHC AMR, change the evaluation criteria (e.g. how they evaluate and score applications), and other similar items without formal amendments to the enabling by-law. Depending on the language in the MCFB, it might also be possible to turn on/off or add/eliminate various incentives through the program guidelines released each year without formal amendment to the enabling by-law. Many of these items might require formal amendment of the CIP by-law if this mechanism was used, requiring a formal process stated in the Planning Act. If the MCFB did need updating due to a change, this is easier than a CIP.

A MCFB is therefore recommended. Both tools offer very similar abilities, however the MCFB offers a few additional permissions, is easier to implement, and is a more flexible tool overall.

4.3.2 Rolling Application or Annual RFP

Both processes are common across Ontario. An annual RFP is recommended based on our analysis and the experience of municipalities interviewed:

- An annual RFP provides certainty to the development community regarding timing for review and approval and funding availability.
- The annual RFP also allows the municipality to efficiently review and prioritize applications by organizing a review committee every year and allocating resources as necessary over a finite period.
- Developers have also shown their preference for an annual RFP, as the process generally allows them time and certainty to prepare an application and ensure all other requirements are met (assuming the process begins around the same time each year).
- An annual RFP will also encourage more applications at a single time, improving competition amongst developers for limited funding.

4.3.3 Depth of Affordability and Tenure

While most incentive programs target lower income housing (i.e. 100% AMR or below), the Region of York’s new program targets middle-income housing. The primary factor driving York’s decision is the fact that many middle-income households are also facing affordability challenges but are ineligible for other housing programs through the Region’s low-income strategies, and also because there is a significant lack of rental housing being delivered by the market.

NBLC also observes other municipalities across the GTA attempting to encourage more purpose-built rental housing, either through direct incentives or other strategies. Almost all incentive programs place the emphasis on rental housing.

Overall, the decision to target middle or low-income rental housing is a decision based on need. In Peel Region, there is a need for both, however Peel is already engaged in strategies to improve the supply of low-income housing. The current budget for the Pilot program is also modest, leading to our recommendation to pursue middle-income housing – which will allow the funding of more homes. As funding increases in the future, the program could be amended to pursue deeper affordability. Notwithstanding this recommendation, the program should still allow groups to provide deeper affordability if they can, which should be addressed and prioritized through scoring criteria.

4.3.4 Fixed vs Flexible Incentive Amount

Both strategies have specific advantages and disadvantages.

A fixed incentive amount (e.g. $50,000 per unit) is easier to administer for the municipality and provides certainty to the development industry regarding funding amounts. Once the municipality decides that an application is supported, there is little to no negotiation or follow up necessary. However, this strategy also requires that the fixed subsidy amount works for that project. As discovered through our financial analysis and the best practice review, there is no single subsidy amount that will work for every single project in a municipality. There are many factors that will impact how much subsidy a project will require to be viable, which poses two major challenges:

- If the fixed subsidy is not enough, a project will not apply, and affordable housing will not be built.
- The fixed subsidy might be too high, which over-subsidizes a project. For a private developer, this would be absorbed through the developer's profit.

A flexible subsidy amount eliminates the above challenges by allowing a developer to request and justify the actual subsidy they require. However, program administration and application review are more complicated because a municipality must now undertake a financial evaluation to ensure the subsidy being requested is reasonable, which might also require negotiation with developers.

It is recommended the Region pursue a flexible subsidy amount and develop criteria and methodology to effectively evaluate applications from a financial perspective.

4.3.5 City-Wide or Location Specific

Most affordable housing incentive programs in Ontario are available municipality-wide, or within the built-up area of municipalities with significant rural areas. Affordable housing is a broad objective and demand is relatively ubiquitous across the Region. However, some locations represent better outcomes than others, such as those serviced by transit, services, walkable amenities, etc.

It is recommended that the program apply City-wide, with locational criteria included in the review of applications.

4.3.6 Ongoing Responsibilities of Approved Organization

Like most programs in Ontario, the agreement will specifically state all requirements of the developer and be registered on title. The developer will be required to provide the municipality with annual reporting to ensure compliance with the agreement, and non-conformity will result in the repayment of funding, possibly with interest. The following is recommended:

- Confirmation that the rental rates remain at the defined affordability level.
- Confirmation the building remains rental in tenure.
- Income verification of tenants at first occupancy and turnover.

4.3.7 Timing of Funding

Given that the Region is interested in providing capital grants, funding should not be released until the issuance of building permit. This is consistent with most of the incentive programs evaluated. Confirmation of capital funding and financing is to be determined prior to issuance of the capital grants.

The Region would commit to funding when the application is approved, which could be at any stage of the application process, however applicants are scored higher of they are closer to obtaining building permit. The Region could impose time restrictions, where the applicant must pull a building permit within 1 or 2 years of receiving approval through the program, however this would restrict the number of projects that are able to meet this requirement.

4.3.8 Regional and Local Coordination

Local/Regional participation in an affordable housing incentive program is rare in Ontario, however this will result in the best result for the Region. Coordination in this way will efficiently reduce redundancies and risk associated with two separate programs and will also strategically stack and direct funding in a coordinated way.

5.0 Pilot Program Overview

The following is the recommended design of the Peel Pilot Affordable Housing Incentive Program. Generally, the program is recommended to be administered through a municipal capital facility by-law approach and be targeted to middle-income rental housing projects.

5.1 Eligibility Requirements

5.1.1 Building Requirements

- The residential portion of the building must be purpose-built rental, mixed-tenure buildings are not eligible. Ground-floor retail and other amenities within the building are permitted.
- The building may be registered as a condominium but must be entirely operated as a rental property for the term of the agreement (minimum of 25 years).
- Minimum project size is 5 units.
- The project can be at any stage of the development process, however projects that are closer to occupancy will be prioritized.

5.1.2 Organizational Requirements

- Both for profit and non-profit organizations may apply, partnerships are also encouraged.
- The organization must have adequate experience both developing and operating housing or have partners with experience in these areas. This will be communicated by the organization through the application form.

5.1.3 Incentive Program Area

- The incentive project area includes the entire Regional Municipality of Peel.
- Locational criteria have been developed to prioritize projects in strategic locations (e.g. adjacent to schools, transit, services, etc.).

5.1.4 Available Funding

- The Region of Peel has $2.5 million available in capital grants available for the initial proposal call.
- Applicants may not request funding in excess of this amount.
- Applicants will be asked to justify the subsidy amount requested. Applicants will be prioritized based on the competitiveness of the subsidy request relative to the affordability depth and length proposed and the total number of units meeting the affordability definition, in addition to other criteria.

- Additional financial support is also available through local municipal programs, including Community Improvement Plans.
- Applicants are also encouraged to pursue funding from CMHC through the National Housing Strategy and other private and public sources.

5.1.5 Affordability Requirements

- A mixed-income project is permitted, consisting of both affordable and market rates.
- Affordable rental rates may not exceed 170% of the Median Market Rent ("MMR") by local municipality as determined by CMHC annually. Due to data suppression, Brampton's MMR will also be used for the Town of Caledon.
- While any application at or below 170% of the MMR and meeting all other base eligibility requirements will be considered, applications providing greater affordability will be prioritized.
- The affordable rental rates must be guaranteed for at least 25 years. Applications that exceed this minimum threshold will be prioritized.
- The entire building must also be operated as a rental property for at least 25 years.
- Annual rental increases will be aligned with annual Provincial guidelines, but rates will not exceed 170% of MMR at any time.
- The 170% MMR will include all monthly shelter costs (gross monthly rent, including heat, hydro, and hot water, but excluding parking and internet/cable charges). Where utility is metered separately for each unit and residents are required to pay the utility costs directly, the maximum monthly rents are set at MMR, less an allowance for each separately metered utility, as determined and updated annually by the Region.
- Only units that meet this affordability threshold can be considered for the incentives in this program.

5.1.6 Suite Mix and Unit Size Requirements

- For all units where funding is being requested, the following minimum suite mix requirements must be provided. A higher allocation of two- and three-bedroom units could also be provided at the expense of one-bedroom units.
  - Bachelor: 0%
  - One Bedroom: 15%
  - Two Bedroom: 50%

- Three Bedroom (or larger): 35%

5.1.7 Tenant and Income Verification Requirements

- At occupancy, the rental rate cannot exceed 30% of the household's gross monthly income. This ensures that only eligible middle-income households can occupy the affordable unit. Table 4 illustrates the maximum household income that would be applicable to the 170% MMR rate for Peel Region.
- Organizations approved for funding must conduct income verification to ensure the above test is met. Income verification must be conducted at initial occupancy and unit turnover. The approved applicant is to prepare an annual occupancy report to the Region, which is described in more detail to follow. Ongoing income testing of tenants is not required.

Table 4: Maximum Housing Income Examples

Bedroom Type	170% MMR (for Peel)	Maximum Household Income
1	$2,050	$82,000
2	$2,330	$93,200
3	$2,701	$108,040

5.1.8 Funding Availability to Satisfy Other Affordable Housing Requirements

- Developments that are mandated to provide affordable housing under Section 37 of the Planning Act, Inclusionary Zoning, a local Rental Replacement Policy, or any other requirement through the municipality's Official Plan or other policy requirement will not be eligible for funding through this incentive program.
- Notwithstanding the above, any development that provides affordable housing in addition to those already required may apply to this program for only those additional units.

5.2 Application Process:

5.2.1 Application Requirements

- The Region of Peel will issue an annual call for applications from private and non-profit organizations.
- A deadline for both questions and final submission will be provided. Addendums and answers may be provided based on questions received.

- The call for applications will include all program guidelines and eligibility requirements, the detailed application form, a template contribution agreement, an overview of how applications will be reviewed and prioritized, and all other items necessary for an organization to submit an application.
- The Application Form for the program should require applicants to provide details on the following:
  - Details of the proposed development
  - The proponent's development and management qualifications
  - Development schedule, required approvals, estimated timing for construction and occupancy
  - Proposed affordable and market rental rates
  - Capital and operating financial plans
  - Identification of all funding secured by the project
  - Identification and justification of the subsidy requested through the Region's program

5.2.2 Application Review Process

The application review process will involve three phases. This process, as well as the scoring criteria, evaluation methodology, and other review materials will be provided to applicants through the call for applications.

Phase One - Eligibility Requirement Review:

The Region of Peel will review all applications for eligibility:

- Rental tenure
- Affordability term
- Affordability threshold
- Development experience
- Suite mix
- Minimum project size
- Subsidy amount requested

- No affordable housing requirement from other mechanism (e.g. Section 37)

Phase Two - Preferred Criteria Review:

Once eligibility requirements have been confirmed, the Region of Peel will also review applications for preferred criteria. While the preferred criteria are not required, applications will be scored and prioritized based on how they perform relative to the following factors:

Depth of Affordability

- Minimum points will be allocated for meeting the base 170% MMR target, more points will be allocated for committing to deeper affordability.

Length of Affordability

- Minimum points will be allocated for meeting the base 25-year target, more points will be allocated for committing to longer affordability.

Locational Criteria

- Applications will be given points if they are within 0-500 metres, 501-800 metres, 801- 1,000 metres of the following features, with more points being awarded for proximity:
    - Transit station with half hour or better service
    - Grocery store
    - Park
    - School
    - Medical facility (e.g. doctor's office, walk-in clinic, pharmacy, etc)
    - Library or community centre
    - Region-identified growth area or area of housing vulnerability

On-site Features and Services

- Applications will be given points if they contain the following:
    - Amenities on site (daycares, community amenities)
    - Accessible units above building code minimums (for units seeking funding)

- Energy efficient/sustainable features above building code minimums

Development Stage

- Applications that require fewer approvals will be scored higher.

Value for Money Assessment:

- Applicants are requested to identify and justify the amount of subsidy they require for a project to be viable. As identified in this analysis, there is no single subsidy amount that will work for every project.
- The Region's program will also prioritize applications that pursue deeper and longer affordability, which will increase the subsidy necessary for a project to be viable.
- To account for the above, NBLC has developed a financial tool that will allow the Region to assess these impacts. For example, the tool will allow the Region to understand how the following two applications compare to one another:
    - 20 units at 100% MMR for 50 years at a subsidy amount of $125,000 per unit.
    - 50 units at 175% MMR for 20 years at a subsidy amount of $50,000 per unit.
- The financial tool will assess each application in the following way:
    - **Affordable Shadow Proforma:** Taking all the project details provided by the applicant (e.g. proposed rents, development costs, operating costs, etc.), Regional staff will populate a spreadsheet that will produce a proforma analysis. The proforma will estimate the value of the project as proposed by capitalizing the Net Operating Income of the building.
    - **Market Shadow Proforma:** Undertaking a similar analysis as per above, however the proforma will assume the entire building is provided at market rates, therefore assuming no affordable housing is provided.
- Value refers to the Residual Land Value of the building, which is estimated by subtracting all development costs (i.e. hard and soft construction costs) from the capitalized value of the revenue stream.
- The difference between the two scenarios will indicate how much value is lost by including the affordable housing. This can then be compared against the subsidy that is being requested by the applicant, which will provide an indication of the 'value' being foregone by the developer relative to the public investment being requested. The analysis will also be market

specific, as the evaluation considers the achievable market rent for that specific building. For example:

- Market Shadow Proforma: $10 million residual land value
- Affordable Shadow Proforma: $2 million residual land value
- Difference in Value: $8 million
- Subsidy Requested: $2.5 million
- Value for Money: 3.2 – meaning that for every $1 invested by the Region, approximately $3 is invested by the developer[1].

- If the above was reversed (i.e. difference in value was $2.5M and developer was requesting $8M), a value for money of 0.32 would be produced, meaning the developer is contributing less than $1 for every $1 being invested by the Region.
- A negative relationship could also be calculated. This might occur in weaker market areas where the affordability threshold is similar to market rates, meaning the difference between the market and affordable scenario might be marginal, but funding is still requested. In this scenario, it does not necessarily mean that the project is not a worthwhile candidate, rather it indicates that the Region's incentive is buying less affordability than if the project was located in a stronger market area like Port Credit.
- Applications will be scored by comparing the value for money results against all applications received. The following calculation will be utilized, assuming the assessment is worth 20 points:
  - [(applicant's value for money) / (highest value for money)] * 20
  - If the highest value for money was 3.5, and the applicant's value for money was 1.5, they would receive 8.5 of the available 20 points.
- The financial tool will also allow Regional staff to check the capital and operating inputs provided by the applicant through the application form. The tool will note key areas and provide a range of reasonable inputs. This will allow the Region to review the financial submissions and follow up with applicants where necessary.

[1] Calculated by dividing the difference in value by the subsidy requested. $8M / $2.5M = 3.2

Proposed Scoring Criteria (preliminary only, and may be adjusted by the Region as appropriate)

Table 5 illustrates the proposed scoring criteria for applications received.

Table 5

Proposed Scoring Criteria				
Criteria	**Score**			
Depth of Affordability				
170% MMR	0			
150%-169% MMR	10			
125%-149% MMR	15			
100%-129% MMR	25			
Below 100% MMR	35			
Total Possible Score	*35*			
Length of Affordability				
25 Years	0			
26-35 Years	15			
35-50 Years	25			
More than 50 Years	35			
Total Possible Score	*35*			
Locational Criteria	**0-500 m**	**501-800 m**	**801-1,000 m**	**1,000+ m**
Transit Station	5	3	1	0
Grocery Store	5	3	1	0
Park	5	3	1	0
School	5	3	1	0
Medical Facility	5	3	1	0
Library or Community Centre	5	3	1	0
Region Identified Growth Area or Area of Housing Vulnerability	5	3	1	0
Total Possible Score	*35*			
On-Site Features and Services				
Amenities on-site	3			
Accessible units	3			
Energy Standards	3			
Mixed-Use Project	3			
Total Possible Score	*12*			
Development Stage (Approval not Required)				
Official Plan Amendment	4			
Zoning Amendment	4			
Site Plan / Subdivision	4			
Total Possible Score	*12*			
Value for Money Assessment				
Total Possible Score	*21*			
TOTAL SCORE	**150**			

Phase 3 - Final Assessment by Established Review Committee:

Once the Region has assessed each application for eligibility and against the preferred criteria, applications will be assessed by a review committee comprised of Peel Region staff as well as staff from each local municipality (local municipal review and approval roles will vary subject to confirmation of municipal incentives being offered). The Review Committee will be comprised of staff with expertise in legal, planning, finance, housing, and policy.

Only applications that receive a score of 100 points or greater will be assessed by the review committee unless the Region receives less than three applications, in which case all applications meeting the base eligibility requirements will be assessed by the committee.

Applications will be assessed by this committee by reviewing all aspects of the project and organization applying for funding. While the scoring results will be used to assist with prioritizing all applications received, the project receiving the highest score may not be the project that receives approval for funding. Following the review, the applicant will be advised of their application status and whether further information is required. Interviews with applicants might also occur through this review.

Should the application be unsuccessful at this stage, the applicant will be provided a written explanation from the Region of Peel.

5.2.3 Application Approval Process

- Regional staff will have delegated authority to approve applications through each round. Project specific implementing by-laws will be required, and an annual report to Regional Council will be prepared to provide an update on projects that have been funded.
- Should local municipal incentives be made available, appropriate local municipal approval will be required.
- Within 60 days following approval, successful applicants will sign a Contribution Agreement with the Region that will include details of the affordable housing to be provided by the applicant and the contributions to be provided by the Region/City or Town.
- Capital grants will not be issued until the time of building permit issuance.
- Applicants will continue to work towards receiving the required planning approvals to receive building permits. It is the applicants' responsibility to ensure their Planning Application is complete and addresses all of City/Town and Regional Planning requirements.
- Approval under this program does not guarantee approval of the planning application(s). The planning applications are still subject to the full review process and must meet all planning objectives and requirements.

5.3 Ongoing Responsibility of the Approved Organization

5.3.1 Annual Operating Reports

- The approved organization will provide an annual report to the Region of Peel that covers the following items:
  - Confirmation that the project remains rental in tenure for the agreed upon term.
  - Confirmation that the approved units remain below the agreed upon rental rates for the agreed upon term.
  - Unit, rents, and tenant incomes of all units that became occupied that year for income verification purposes.

5.3.2 Agreement Non-Conformity Process

- If the approved organization is found to not conform with any items within the contribution agreement, the following steps will be taken:
  - The organization will repay the remaining, unforgiven portion of the Region's total incentive.
  - The total incentive value will decrease each year where the project was in conformity (e.g. if the term was 25 years, the total value of the incentive will decrease by 4% or 1/25th).
  - The amount to be repaid to the Region will follow the above deduction methodology, however interest will also be applied at a rate of prime plus two percent and will accrue and compound from the time of initial issuance.
  - The Region may also work with the organization to remedy the issue leading to default.

6.0 Implementation and Monitoring Considerations

6.1 Implementation Requirements

To implement the incentive program, the following outstanding items are required to be completed:

- Update the existing Municipal Capital Facility By-Law.
- Prepare the call for proposal program guidelines, application form, and contribution agreement / capital facility agreement templates.
- Confirm local municipal incentives prior to the preparation of the proposal call documents.
- Receive the Value for Money financial tool from NBLC, including a training session on the use of the tool.
- Finalize the review methodology and scoring criteria / weighting.
- Establish proposal call and approval timing.
- Establish the review committee, including the Regional lead for assessing applications for eligibility and preferred criteria.

6.2 Expected Short-Term Outcomes

Interest in the pilot program could be limited due to the following:

- The limited budget currently available.
- Relatively short notice of the program and possible lack of development projects that are ready to commit to an affordable housing requirement.
- The significant market impacts associated with COVID-19.
- Other issue or challenge associated with the Pilot program design.

Regional staff should work with local municipal staff to engage developers with active applications or development interest to communicate that the program is coming. Regional staff should also continue to consult with the development industry as the program design is released to adjust if appropriate.

If the pilot program does experience modest interest in the first year, this should not immediately signal that the program is ineffective. Rather, additional funding and adjustments should be made to improve any identified shortcoming. Ongoing monitoring and adjustment will be necessary and is a requirement of all incentive programs in Ontario. The review of the program should occur every year, which might also involve consultation with the development community. We recommend that adjustments be made as necessary on an ongoing basis to improve take-up of the program.

6.3 Long-Term Program Viability

To improve the longer-term viability of the program, additional funding will be necessary. This should include one or more forms of local municipal incentives to "stack" with Regional funding and create a streamlined program for applicants, which will also enable a coordinated approach to achieving affordable housing objectives. The Region should begin working with each local municipality immediately to integrate them into the program and secure funding. As this occurs, program details (affordability depth/length, application review methodology, etc.) can be adjusted if determined appropriate.

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