



EVALUATION OF IMPACTS OF INCLUSIONARY ZONING POLICY

Peer Review & Written Opinion

Peel Region, Ontario

Prepared for the **Region of Peel, Cities of Mississauga and Brampton & Town of Caledon**

December 14, 2021



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December 14, 2021

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RE: Evaluation of Impacts of Inclusionary Zoning Policy – Peer Review & Written Opinion (Peel Region, Ontario)

urbanMetrics inc. is pleased to provide the Regional Municipality of Peel (“Peel Region”, “the Region”), the Cities of Mississauga and Brampton and the Town of Caledon with the following peer review and written opinion of the draft *Feasibility Analysis: Evaluation of Potential Impacts and Implementation of an Affordable Housing Inclusionary Zoning Policy* report prepared by N. Barry Lyon Consultants (“NBLC”).

Based on our review of the subject report and our own re-cast of selected elements of the associated financial analyses relied upon to inform the findings of the study, we ultimately support the work prepared by NBLC to date. In particular, having regard for the inherently high-level nature of this type of analysis in informing municipal land use policy at such an early stage of the development / community planning process, it is our professional opinion that:

- The study **adequately addresses the requirements set out in Ontario Regulation 232/18** with respect to the implementation of new Inclusionary Zoning programs;
- There **do not appear to be any material deficiencies** in the work prepared by NBLC;
- A **complete, detailed, thorough and accurate financial analysis** has been prepared by NBLC; and,
- The analysis **appropriately captures required submarket-specific nuances and conditions** across the various communities identified.

The following opinion letter provides a more detailed overview as to the underlying purpose and scope of our review, urbanMetrics commentary as to the appropriateness of the underlying methodology employed by NBLC—including associated analytical assumptions and statistical inputs—as well as our own professional opinions as to the interpretation of the research findings presented and final recommendations being advanced by NBLC.

1.0 Introduction

1.1 Background

In 2018, the Provincial government passed Regulation 232/18, which allows municipalities to implement Inclusionary Zoning (“IZ”) policies under certain predefined conditions and parameters.

Simply put, IZ is essentially a housing policy approach that seeks to secure non-market housing as a byproduct of broader market developments. The policy tool has been implemented in many jurisdictions throughout the United States—to varying degrees of success—and the approach is now being actively studied and considered in many Canadian cities, including across Ontario.

In response to the above policy direction at the Provincial level, the Cities of Mississauga and Brampton, the Town of Caledon, and the Region of Peel collectively commissioned a study specifically targeted at preparing a more detailed investigation and testing of local development conditions; ultimately informing whether the adoption of an IZ policy framework is economically feasible in this jurisdictional and locational context. More specifically, the purpose of this study has been to explore how the implementation of a new IZ framework could impact development activity in these communities, with the objective of maximizing the creation of new affordable housing units and minimizing any unwanted impacts on investment interest, land values or overall market affordability.

To complete this study, the subject municipalities have collectively retained the services of NBLC, a consulting practice specializing in housing, development feasibility analysis and real estate strategy. As outlined in more detail herein, the NBLC study has largely been completed in at this stage, including an extensive supporting research program, the preparation of financial pro forma analyses for a number of different submarket areas, consideration for a range of alternative scenarios or potential outcomes by way of corresponding “sensitivity analyses”, consultations with local real estate professionals active in the Peel Region market (i.e., the development community), and delivery

of a complete draft report inclusive of all related research findings, conclusions and recommendations as of April 2021.

With respect to the sensitivity analyses noted above—which has formed part of the core research program undertaken by NBLC—we note that a relatively exhaustive range of scenarios has already been tested at this initial stage. However, additional consideration will also be given by area municipalities to better understand the feasibility of Inclusionary Zoning implementation by continuing to engage in further studies at the local level (e.g., as it relates to development charge / community benefits charge reviews and/or other fiscal planning, land use policy development, etc.).

1.2 Purpose

Assessment Report

The aforementioned introduction of new IZ policies by the Government of Ontario under the Planning Act resulted in Ontario Regulation 232/18, which was filed on April 11, 2018. The study commissioned by the subject municipalities and completed by NBLC is ultimately intended to satisfy the requirement for the “Assessment Report” identified under this regulation and as part of the municipalities’ consideration for developing new Official Plan policies. As noted in the NBLC report, this Assessment Report is required to provide an “analysis of potential impacts on the housing market and on the financial viability of development or redevelopment in the municipality from inclusionary zoning by-laws” and specifically taking into account the following factors:

- value of land;
- cost of construction;
- market price;
- market rent; and
- housing demand and supply.

Written Opinion

Further to above, Ontario Regulation 232/18 also requires a “written opinion on the analysis” described above that is prepared by a “person independent of the municipality and who, in the opinion of the council of the municipality, is qualified to review the analysis”. In satisfying this measure, the Region of Peel, the Cities of Mississauga and Brampton and the Town of Caledon have now retained the services of urbanMetrics to undertake this peer review and written opinion of the NBLC study.

Although the consideration for implementing IZ policies is a relatively new concept for Ontario municipalities and therefore few of these peer reviews have been completed to date, we note that they are commonplace in various other areas of land use planning and the municipal development approvals process. In particular, they are perhaps most common as part of critiquing other types of land economics assignments, including market demand and impact studies and/or in support of dispute resolution (e.g., in preparation for OMB/LPAT hearings, etc.).

In our experience, these types of studies are typically intended to provide a municipality or other public sector organization with an **unbiased, third-party perspective and to further validate (or refute) the findings presented as part of an original research assignment.**

To this end, urbanMetrics’ role for this assignment has ultimately been to **ensure the underlying appropriateness, accuracy and suitability of the study prepared by NBLC**, thereby providing the subject municipalities with additional confidence in the findings presented.

1.3 Scope

Core Elements

It is important to make clear at the outset of this review the underlying extent and scope of our involvement with this assignment. As established in the original Terms of Reference with Peel Region and the local municipalities, this review has generally been intended to address a number of core elements of the NBLC study and ultimately to prepare the following key tasks/deliverables:

- Assessment as to whether the requirements of Ontario Regulation 232/18 have been met by the NBLC study;
- A review of the: (i) appropriateness of the methodological structure of the analysis; and (ii) the validity of the key assumptions and inputs relied upon by NBLC.
- Detailed review of at least one sample or “test” site per local municipality that is reflective of the unique conditions and parameters presented within each community (and assumed to be sufficiently representative of the larger body of work undertaken);

- Commentary and professional opinion as to the overall appropriateness of the various research and analysis prepared by NBLC in the context of supporting the implementation of the Region’s new IZ policy framework;
- Additional commentary and/or insights from a “real world” perspective that may further substantiate (or refute) specific elements of the market analysis and financial viability report prepared by NBLC, based on our own professional experience;
- Written opinion of the NBLC draft report of April 2021 (as presented in this document), including summary as to our findings and professional conclusions based on the work program above

Meetings & Other Correspondence

In addition to the specific tasks identified above, we have also engaged in ongoing and active discussions with municipal staff and appropriate representatives of NBLC at a number of occasions, including liaising with relevant technical/analytical staff to clarify our understanding of the analysis and key data inputs, as needed.

Limitations & Exclusions

In light of the above scope of work, and as agreed upon with the subject municipalities before undertaking this review, we further note that there are a number of specific exclusions and/or limitations to our review, including but not necessarily limited to the following:

- We have not validated the calculation of relevant development-related municipal fees and charges (e.g., development charges, planning application fees, etc.), which are all assumed to be sufficiently accurate for the purposes of this review and have already been vetted by each of the local municipalities involved.
- Beyond a high-level review of their general suitability and consistency with current development patterns, we have not provided a direct critique nor other commentary on the conceptual developments considered by NBLC within each of the submarket areas identified (e.g., with respect to overall scale of development, densities, consistency with municipal policy and development permissions, etc.). We trust that these have all been appropriately reviewed and understand that they have been provided to NBLC directly by municipal staff before being tested for viability.
- We have not prepared a detailed, line-by-line audit of the various financial pro forma analyses produced by NBLC and all corresponding spreadsheets, cell references, etc. Instead, and respecting the propriety nature of many of these elements of the study, we have undertaken a

more high-level review and recast of sample pro forma analyses provided by NBLC in PDF format. Given that all of the distinct feasibility analyses and related sensitivities follow a similar/identical analytical structure and format, these are generally assumed to be appropriately representative of the entire body of work prepared by NBLC as part of this assignment.

2.0 Review

2.1 Methodology

The following section details our high-level review of the methodology employed by NBLC to evaluate the effects of IZ on the financial feasibility of development in each Protected Major Transit Station Area (“PMTSA”) considering a combination of tenures (i.e., condo and rental) and affordability types.

Analytical Structure & Approach

In completing this type of community-wide feasibility analysis and ultimately informing future municipal policies, it is important to emphasize that no two development sites are the same and individual developers will have varying motivations and return expectations (or requirements) to consider when underwriting a new development project.

This dynamic presents one of the single greatest challenges in assessing the impacts of IZ on the financial viability of development across broad market areas. With this in mind, the following provides a brief overview of our review, understanding and commentary on the fundamental methodologies and approach adopted by NBLC as part of this study.

- The approach taken by NBLC was to first establish **prototypical development concepts** for each of the 16 submarkets identified based on direct inputs from municipal staff. These development concepts considered both purpose-built rental and condominium/ownership tenures in each submarket. In our experience, although not without its pitfalls in terms of appropriately reflecting the potential unique conditions or requirements of individual sites, this general approach is certainly most common and can generally be considered an emerging “best practice” for such high-level, Region-wide analysis. Similarly, we can confirm that

urbanMetrics has regularly employed a similar methodology in other municipal jurisdictions where this type of high-level demonstrative or illustrative analysis was required.

- Utilising these prototypical developments, NBLC then assessed the financial viability of development using a **residual land value (RLV) approach** to estimate the maximum land value a developer may be willing—or able—to pay for a development site while also meeting their own internal development return requirements. Often utilized in the development community as a “first pass” when underwriting potential development site acquisitions, an RLV assessment requires less detail and specificity than a more comprehensive discounted cash flow (DCF) proforma modelling technique typically relied upon once a site has already been identified as having some underlying development potential. The latter DCF approach is generally more appropriate when a detailed site-specific development concept is being tested and optimized to ensure returns will be met and financing can be secured. In our experience, if a development site is unable to pass the preliminary RLV test, it is unlikely to be feasible when modeled on a DCF basis. As such, while this general approach will not necessarily guarantee the future feasibility of a given development project, it typically provides an appropriate measure of viability and economic promise at a much earlier stage such as this (i.e., as part of a municipal land use policy exercise such as this).
- Given the **challenges of evaluating IZ policies across 16 distinct submarkets and hundreds of unique sites**, we believe that the RLV approach is appropriate for informing policy-based decisions such as this, whereas a DCF model is only appropriate for site-specific analysis when more detailed development plans are available (i.e., detailed design stage of development or immediately approaching market entry).
- Additionally, we note that—when considering each of the distinct development scenarios and sensitivities identified (e.g., feasibility by tenure, time period, etc.)—the NBLC analysis has involved the creation of more than 100 unique proforma models, which would have otherwise required an unnecessarily burdensome amount of time and resources to complete as a DCF for each scenario. It is our opinion that **this additional effort would have been of little to no value to the subject municipalities**, yielding marginal—if any—benefit. Similarly, we note that—as a prerequisite to undertaking any more detailed analysis than already prepared by NBLC—additional design conceptualization and site-specific considerations would be required, which are not necessarily available from the three local municipalities at this time.
- In order to estimate the impact to land values associated with the implementation of IZ, NBLC undertook the following specific work steps:
 - Firstly, **estimates of the base land value** for each prototypical development were established based on prevalent existing under-utilized uses in each submarket area.

- Next, redevelopment for **both condo and rental housing** were tested under the current policy (i.e., with no IZ) to understand if development is viable before an IZ policy is implemented.
- Finally, **various implementations of IZ were tested** considering different levels of affordability (condo) and affordability periods (rental). If the land value of any redevelopment scenario approached (within 10%) or fell below the base value of a site, NBLC assumed that the viability of the development project would be in question. This assumes that if a residential developer cannot offer the existing landowner at least 10% higher than a site’s base value, it will not be enough to motivate a landowner to close their business and sell their site to the developer.

In executing this assessment, NBLC also notes that their analysis is intended to assess “*a forward looking IZ approach in scenarios that are thought to be reasonable prototypes for development occurring under current market conditions...*”. Perhaps more accurately, we would suggest that it rather takes into account current market conditions to then forecast potential or likely future conditions (e.g., considering growth in both revenues and costs, etc.), which is a suitable approach in our opinion¹.

Overall, we find this to be a reasonable approach for understanding the high-level implication of implementing IZ within each submarket. We do, however, caution that it is unlikely that the prototypical base land values assigned to each submarket will be consistent with current landowners’ actual or perceived values on a more site-by-site basis.

NBLC also recognizes and acknowledges this limitation as part of the following note in Section 5.5 of their report:

This analysis cannot capture certain nuances arising from the nature of a historical land purchase or the former capitalization of land costs through the operation of an income-generating use in the interim. Nor can it contemplate the acquisition of land at speculative values, not fully appreciating the magnitude of impacts from future policy adjustments.

¹ We understand that—over the course of this peer review process and at the request of the Region—NBLC’s reporting has been updated to reflect a change in language for clarity and consistency with this commentary.

To appropriately reflect this limitation, it will be important for the subject municipalities to provide sufficient flexibility in their IZ policies, even in areas where financial viability may appear strong with IZ, as presented in the analysis prepared by NBLC.

Included later in this report are a number of more targeted comments and recommendations based on the work already prepared by NBLC, which may be helpful when considering the appropriate balance of flexibility and successful outcomes as the new IZ policies are implemented. For example, it will likely be helpful to consider options relating to site-specific policies, a gradual introduction of the new policy framework, as well as continued communication and monitoring, once introduced to mitigate against unwanted outcomes.

Application & Accuracy

As part of our methodological review, NBLC has provided us with detailed RLV models for four sample submarkets representing varying locational and market conditions across the Region. These include:

- **Bolton PMTSA** (Caledon)
- **Mt. Pleasant PMTSA** (Brampton)
- **Mississauga City Centre PMTSA** (Mississauga)
- **Port Credit PMTSA** (Mississauga)

Although it is outside of the scope of this peer review to perform a line-by-line audit of each model, we have ensured that the mathematical approach to calculate the residual land value under each scenario is sound and that the general equations appear to be correctly formed. Furthermore, we have also conducted a high-level “spot check” across each of the RLV models to identify any obvious inconsistencies or analytical deficiencies.

Through our review of the sample models provided, we have co-ordinated directly with NBLC on numerous occasions to obtain further clarification in several areas. These topics and discussions included, but were not necessarily limited to, those outlined in the bulleted list below. We further note that any material concerns with these topics have been appropriately addressed by relevant members of the NBLC team and we are therefore satisfied with the responses provided.

- Determination of Affordable Housing Costs, which were tied to the 2018 Peel Housing Strategy;
- the inclusion of HST in both the revenue and cost calculations;

- the deliberate exclusion of locker revenues / costs;
- the rationale for establishing vacancy and bad debt assumptions, expressed as a percentage of gross revenues;
- the establishment of above-average operating expense ratios for market and affordable rental components;
- the application of equivalent capitalization rates for both affordable rental and market rental developments;
- the application of present value calculations, including specific time periods considered when discounting;
- the proportion of units considered when estimating interim occupancy charges;
- the calculation of existing land values;
- the rationale for selecting a below-average sales commission rate;
- the application of construction financing rates and construction draw schedules;
- the application of parking requirements and suitability of parking types;
- property tax assumptions;
- the methodology for valuing the affordable rental scenario with a 25-year term; and
- the appropriateness of the discount rate applied.

Based on the high-level scope of this peer review, we cannot be certain that the NBLC analysis is completely error free, however, based on our detailed discussions and NBLC's additional background research, combined with our own review and spot-checking, we are sufficiently confident that the RLV approach described above has been applied correctly and accurately.

2.2 Inputs & Data

Based on the general analytical structure set out in the previous section of this review, the following provides a more detailed overview of our findings with respect to a number of the more specific sub-

elements of the NBLC study. This includes the range of specific inputs, assumptions and other statistical sources relied upon to complete the subject analyses.

Development Concepts

Table 3 of the NBLC report summarizes the prototypical site assumptions (e.g., site area, building height in storeys, units counts, Gross Floor Area) while Table 4 summarizes prototypical units and parking assumptions (e.g., average unit size, parking ratio, unit and parking pricing, absorption) for each of the 16 submarkets.

In our opinion, these assumptions appear **reasonable and reflective of both existing policies and emerging development trends** present in each submarket. The general scale and nature of development contemplated is also consistent with our own professional experience in this part of the Province, including work directly on behalf of the local development community and/or other landowners and investors.

Market Information

- **“As is, where is” Base Land Values**

The base land values upon which all development scenarios were judged have been calculated using land values of existing underutilized properties, such as retail, industrial and low-density residential uses. While this may not be a perfect solution, it likely represents the most appropriate high-level and consistent assumption available to NBLC in this particular application (i.e., that which best reflects the current conditions on many of the properties located within the various submarkets or PMTSA’s identified). As noted earlier, there are some inherent and unavoidable limitations to this type of demonstrative analysis in terms of potential disconnect between the land values modelled in the analysis versus the actual or perceived values for specific landowners throughout these areas.

This is a distinct challenge of introducing any new IZ policy framework, whereby local landowners could be reluctant to acknowledge or accept downward pressures on land values. This reluctance to accept downward pressure on land values can be particularly strong for sites that currently may be worth more to the owners based on the existing income generating operations than the one-time payout of selling the site for re-development. NBLC provides an illustrative example of such a situation on page 18 of their report. Furthermore, we also note that land values do tend to be more resilient to change or market fluctuation and generally exhibit a certain level of “stickiness” (less likely to respond immediately) relative to other forms of real estate pricing (e.g., price per square foot sales levels, which are more immediately responsive to changing market conditions or consumer preferences, land use

policy amendments, infrastructure announcements, etc.)². As highlighted by NBLC, the resulting risk of this dynamic is that overall development activity is thereby reduced given the weakened financial prospects resulting from the lower revenue-generating opportunities inherently presented by non-market/affordable housing options.

As recommended by NBLC and discussed further herein, there are nonetheless a number of approaches that can potentially be utilized by the subject municipalities in addressing these risks, including **gradual introduction of policy changes, continued monitoring of market impacts on a go-forward basis**, as well as a broader **commitment to frequent and direct communication with the local development community/landowners**.

- **Revenue Assumptions**

Appendix A of the NBLC report summarizes the results of their high-level scan of condominium sale prices and rents across the 16 submarkets, while Table 2 details the affordability levels considered in the RLV models. Through discussions with NBLC and based on our high-level review, **the revenue assumptions (including additional interim occupancy charges and various recoveries) appear reasonable**.

We will, however, **underscore the importance of updating these assumptions regularly on a go-forward basis**, especially to reflect ongoing and—at times rapid—changes in market conditions within the GTA. Similarly, additional consideration may ultimately need to be given to the potential short/medium-term effects of the lingering COVID-19 pandemic. That said, we tend to agree with the sentiments expressed in the NBLC relates as to the limited long-term impact of the pandemic, as recovery continues, conditions improve and “normalcy” is re-established.

² For example, given that many landowners are not keenly aware of changes to land use policy—including those being contemplated as part of the new IZ framework—land pricing tends to exhibit a certain amount of “stickiness” as it is unlikely that owners will immediately change their expectations around the value of their properties. This could therefore slow the rate at which land pricing ultimately adjusts.

Ground Floor Commercial Uses in Mixed Use Developments

Although not directly related to the core housing focus of this analysis (i.e., including both market and non-market components), NBLC acknowledges that—in some areas—prevailing planning policy would require developments to be mixed-use, thereby incorporating some commercial uses within the development on a given site. It is our understanding, however, that the RLV models prepared by NBLC assume that these types of commercial spaces would be “revenue neutral” and therefore have been excluded from their analysis, accordingly.

Based on our experience across suburban and emerging urban markets across Ontario, we note that—while nonetheless important in achieving active and animated complete communities—these grade-related retail and service commercial spaces can, in many cases, remain vacant for many years and indeed reduce the profitability of broader mixed-use projects. We further note that, during underwriting, it has become increasingly common for developers to assume “zero” revenues from this portion of a given building, yet still consider the associated costs as a more conservative approach (i.e., appropriately reflecting the potential risks associated with investing in the construction of these non-residential spaces yet not necessarily realizing the corresponding revenues). Therefore, although we generally agree with the approach adopted by NBLC in this regard (particularly for the sake of simplicity), we would **recommend that any requirements to include commercial spaces as part of future developments within the subject PMTSA’s should be carefully considered before or in parallel to the implementation of new IZ policy.**

- **Hard Costs Assumptions**

The RLV models are derived from hard cost estimates available from the Altus Construction Cost Guide. Specifically, we note that NBLC has chosen to apply a slight premium relative to the averages reported in this guide. Given the high-level nature of the development concepts considered and in the absence of more site or development-specific cost estimates from a quantity surveyor, **we consider the hard costs in the Altus Guide appropriate** for inclusion in this type of RLV analysis. Based on our own professional experience, we also agree with the general approach to target a level slightly higher than the average reported, which tends to fall slightly shy of cost metrics commonly identified by local developers active in the GTA.

- **Soft Cost Assumptions**

Municipal development fees (including planning application fees, building permit fees, development charges, parkland contributions, and property taxes), which make up a large portion of soft costs, have been included by NBLC as direct inputs from the Region and local local municipalities. Other soft costs have been estimated as a percentage of hard costs based on typical “rule of thumb” type ratios, a common technique across all real estate proforma analysis. In our opinion, this is an appropriate level of detail to have included in this portion of the analysis and consistent with the approaches commonly utilized by urbanMetrics.

Other Assumptions

In addition to the more targeted market-based assumptions, the RLV models require several assumptions that must go beyond what today’s market research reveals and therefore incorporate an element of professional judgement. These include:

- **Capitalization Rates (Cap Rates)**

Combined with the net operating income (NOI) expected from the new buildings, cap rates are used to estimate an income-producing asset’s value upon completion. Market cap rates across all asset classes are readily reported on for both current and historical periods, however, future cap rates are unknown and must be forecast based on the modeller’s best estimate of future market conditions and expected investment returns. The cap rates utilized by NBLC are generally in-line with the current cap rates reported in Peel Region and, in our opinion, are reasonable to assume over the short- to medium-term in the Region. As discussed directly with representatives of NBLC, however, there may be an opportunity and rationale to adjust the relativity of the cap rates between market and affordable rental uses, albeit unlikely to materially affect the outcomes of the financial analysis.

- **Revenue & Cost Growth**

The RLV models utilized by NBLC involve consideration for market conditions over future periods and as such, current market revenue and cost assumptions were assumed to grow into the future. In particular, NBLC has conservatively assumed that both revenues and costs will grow by some 2% annually on a go-forward basis. We appreciate this conservative growth rate (by comparison to recent/historical patterns) and believe that by assuming revenues and costs will grow equally, the future value of development land is not reliant on growth in market demand (i.e., revenue growth) outpacing the corresponding growth of costs, which would then speculatively add value to land into the future.

Moreover, based on follow-up discussions and responses to targeted questions posed by urbanMetrics, we understand that NBLC have not applied a unique growth rate to the future municipal fee portion of soft costs (e.g., development charges). This was an active decision on their part to hold the rate of growth for municipal fees directly in line with other hard and soft construction costs, with recognition and acknowledgement of the fact that these could ultimately fluctuate in time. While we note that this could ultimately understate the potential future costs associated with increased municipal fees—which could very likely increase at a rate of greater than 2% on average in the coming years—we appreciate that this is difficult to pinpoint based on uncertainty in the future cost recovery needs of the subject municipalities in future periods. Regardless, we do not anticipate this will necessarily result in a material impact on feasibility, as characterized in the context of this study. In particular, as confirmed and noted by NBLC, these fees are typically levied relatively early on in the development

process (upon issuance of building permits), so any impacts of applying a unique growth rate to these figures would only be marginal. That is, they are unlikely to deviate significantly from current rate structures in a relatively short period of time. That said, **any substantial adjustments to development charges or related municipal fee structures contemplated—particularly by the local municipalities—should be considered and potentially re-evaluated in the context of this analysis**, where applicable.

- **Developer’s Profit**

A key component of any RLV model is to account for, and preserve, a reasonable developers’ profit. NBLC has set-aside a total of 15% of project revenues to reflect this opportunity for profit-generation. It is important to note that—although **developers often do not achieve the targeted profit margin included in their RLV upon completion of a development project**—assuming anything less at this early stage of the development process would not allow for the real world “wobble room” that development projects often need to see them through more detailed site-specific planning process and execution. This, in effect, serves to reflect an appropriate contingency or “buffer” on any profit margins, thereby allowing for potential future fluctuations (increases) in costs, poor sales performance and/or other potential unforeseen circumstances. Furthermore, a healthy profit margin ensures that projects will secure financing in terms of presenting more favourably to prospective lenders.

Overall, and in consideration for the above factors, developers typically underwrite their projects at a baseline or starting point of 15% (in our experience), although anywhere in the range of 10-20% is generally considered reasonable or an appropriate benchmark in this type of application. NBLC’s decision to target the middle end of this range is appropriate both in terms of exercising reasonable conservatism, but also in terms of consistency with our own work and practices of the development community itself.

- **Discount Rate**

The NBLC models assume that revenues, costs and developer’s profit will occur more than 5 years after land acquisition and a 6.0% discount rate was applied to calculate their present value and the amount that the developer would be able to pay for land today. Through supplementary conversations with NBLC, we understand that this discount rate was chosen in large part through their previous consulting experience with the development community in comparable Ontario communities. Although it is impossible to know each individual developer’s discount rate—which undoubtably will vary, typically somewhere in the range of 6% to 12%—we believe that 6% is an appropriate “blanketed” assumption in this case where there is a need for consistent and blended averages across multiple properties and geographies. If anything, however, we do note that this may be potentially optimistic.

Overall, it is most important that NBLC has appropriately recognized the need for such a discount rate to reflect the inherent risks associated with the types of capital investments being contemplated in this analysis. Although the exact rate at which this discounting is applied could be debated at length—again subject to personal experience and/or preferences on behalf of a given landowner or property developer—we do not feel that any specific changes to this assumption are necessarily warranted given that the assumptions fall within a reasonable range.

- **Sales Commission**

NBLC has applied a sales commission fee of some 2.5%, expressed as a percentage of total revenues. This represents just one of many soft cost line items considered as part of their financial analysis. As highlighted in our recent discussions with NBLC, it is our opinion that this likely understates these costs and could more reasonably be increased (e.g., in the range of 5%). Similar to a range of other possible minor adjustments to input assumptions, however, this type of change—in and of itself—is unlikely to result in any material changes to the outcomes of the analysis, nor influence the key observations and recommendations developed by NBLC with respect to feasibility and implementation.

Overall, we believe that the assumptions requiring professional judgement have been reasonably considered by NBLC and serve to ensure that land values across all scenarios and submarkets are comparable to their base values.

2.3 Interpretation of Findings

As is the case with any land economics assignment of this nature, it is important to not only ensure the quantitative methods and underlying calculations, assumptions and statistical inputs are sound and appropriately representative of potential real-world conditions, but also to validate the resulting interpretation of the analysis and any key takeaways and recommendations. That is, the analysis needs to go “beyond the numbers” and achieve some substance in more practical vs. theoretical applications.

Whereas the previous sections of this review substantiate the more technical aspects of the NBLC study, the following focuses on providing a secondary review of their end conclusions and recommendations to the subject municipalities from the perspective of future implementation. Overall, **we agree with the general advice and observations made by NBLC in light of the analysis**

presented. There is a direct and immediate connection to the analytical findings established and the recommendations thereof.

General Flexibility in Policy

As noted previously in this review, it will be critical to ensure that appropriate flexibility is built in to any future IZ policy established by local area municipalities.

Perhaps most importantly, it is critical to first acknowledge that the modelling employed by NBLC is illustrative in nature only. Given the hypothetical nature of their assessment for demonstrative parcels of land within each submarket, there will undoubtedly be unique development conditions, expectations and resulting land pricing for individual sites in *practice* versus *theoretical* development projects. Although it is impossible to truly capture all the distinct conditions on each of these sites, it is nonetheless important to accommodate the range of possibilities or potential outcomes in this regard. As such, a **future policy implementation that avoids being overly prescriptive** while also maintaining sufficient protection of the underlying objectives or strategic goals of the municipalities will be important.

Nuance in Submarket Performance

In conjunction with the above commentary on flexible policy, it is important to note that no two properties nor submarket areas perform equally and therefore any nuance in the strength or performance of real estate across the Region must be appropriately considered.

NBLC highlights the obvious diversity of market conditions across the Region, specifically noting that the high-density residential market is not ubiquitous. In addition to general flexibility to bridge the gap between policy and the realities of the real estate market, it will also be important to **encompass the full range of development conditions presented across the various submarkets**—and/or individual sites—identified within each municipal jurisdiction.

At its most basic manifestation, we agree with NBLC’s recommendations that targeted financial incentives or other offsets (e.g., lower set-aside rates, density bonusing, etc.) may be required to compensate for the obvious reduction in revenues associated with affordable housing minimums; particularly in the context of poorer-performing or “weaker” market areas. In addition, however, we

further note that there could be a myriad of other parameters or “levers” that can potentially be considered by the subject municipalities to improve feasibility conditions in more isolated cases, including:

- modifying the “depth” of affordability in terms of targeting a different proportion or representation for low and moderate income households; and/or,
- considering reductions in parking requirements or other burdensome development parameters that can impede project viability.

Site or Area-Specific Policies

The implementation of any community-wide land use policy through a blanketed “one-size-fits-all” approach will be inherently challenging and flawed.

In addition to the conditions noted above, it may also be important to consider appropriate policy mechanism(s) that allow for **site-specific exemptions or other accommodations to achieve appropriate conditions on unique and/or strategic sites**. For example, there will inevitably be sites that are particularly challenging from the perspective of viability (e.g., severe contamination and remediation costs, difficult or complex physical/location/access characteristics, awkward relationship with surrounding land uses, exceptionally large sites for which unique challenges are presented with respect to phasing and possible absorption timelines, etc.). Loosening of some of the IZ policies may be required in order to continue to incentivize and/or allow for development to occur for these types of sites.

Similarly, there may be specific strategic sites for which the various local municipalities would like to secure additional development to achieve other planning or economic development-related objectives, which require discretionary relaxation of policy to alleviate constraints to develop relating to reduced opportunities for revenue generation. For example, similar to the discussion relating to mixed use developments above, there may be other types of uses or specific development features desired by area municipalities that extend beyond affordable housing alone (e.g., inclusion of retail/service commercial amenities, securing of major office or other similar employment uses, integration of community / recreation centres or other public institutions, public realm improvements, etc.). As each of these may affect feasibility in different ways, it will ultimately be incumbent upon the local municipalities and the Region to prioritize these preferred outcomes and consider their relationship relative to the delivery of affordable housing via the new IZ framework.

Gradual Introduction

In their draft reporting and based on our own discussions with relevant members of their team, NBLC appears to advocate for introducing any new IZ policies gradually or “turning the taps on slow”, so as to provide appropriate advanced warning to landowners and the development community. Although in theory—and perhaps at face value—this could delay the delivery of new affordable housing supply to the Region, we ultimately agree with their assessment and believe that this is a necessary first step to ensure the longer-term sustainability of the new policy framework. This may also serve to avoid any unwanted immediate or short-term “shocks” in the local market area(s).

In addition to establishing a reasonable timeline for introduction of the new IZ policy, this initiative should also be accompanied by active and regular communication, education and outreach with the development community to ensure clarity of the intended direction and motivations of this policy, as well as the anticipated outcomes from the perspective of each of the municipalities.

With this type of ongoing communication and education, it is much more likely that undesirable outcomes can be mitigated or perhaps avoided altogether – particularly by reducing uncertainty and/or misinterpretation amongst the development community. In particular, as evidenced through ongoing discussion relating to the implementation of new IZ policies in other GTA jurisdictions, it will be increasingly important to be mindful of risks and unwanted consequences—such as reduced development activity and interest, or misinterpretation of policy mechanisms—by offering complete information to the development community:

Monitoring Framework

Consistent with the notion of a gradual introduction of new IZ policies, per above, a related and subsequent task for the municipalities will be to continuously monitor the market impacts of the new IZ policy and to actively adjust in response to any unwanted changes.

This type of monitoring will also be required to simply update and reflect constant changes in a dynamic real estate market, including: evolving construction cost profiles and rates, changing

revenue/demand prospects, adjustments to developer preferences, ongoing supply/demand relationships, broader macroeconomic trends, etc. Similarly, as alluded to in some of the case study examples identified by NBLC (e.g., New York City), there may be a need to hear appeals or challenges to the policy in circumstances for which a reasonable agreement cannot be established between municipal authorities and local landowners/developers.

With respect to future monitoring, however, we recognize that this will be particularly challenging in an environment of limited financial and/or staff resources and potential lack of in-house subject matter expertise within each of the subject municipalities. These challenges could also be further exacerbated in the event that there is not a sufficient scale or magnitude of IZ-related development activity to justify the costs of monitoring in this manner. Based on the level of development interest in most of the PMTSA's identified, however, and the inherent real estate investment opportunities available in proximity to new transit infrastructure, we do not anticipate that this will be a major concern in the context of Peel Region as a whole.

One potential solution to this problem would be to simplify the analyses prepared by NBLC and effectively isolate or reduce to the model to its core principles (i.e., a “bare bones” version of the same modelling that follows the same general RLV structure but with fewer individual assumptions or statistical elements to be updated). This may facilitate any future updates by municipal staff and/or others involved that may not be able to offer the same level of expertise as external consultants.

Although we generally caution municipalities against updating or re-running these types of financial models in isolation and without an appropriate understanding of the underlying concepts and requirements for said inputs, this approach may nonetheless offer an interim or temporary solution that requires less significant time and effort (as well as reduced risk of inaccuracy or misinterpretation). For example, it is our opinion that—while the NBLC analysis may be appropriately detailed to inform the development of the new IZ policies under consideration as an initial baseline—the modelling structure may be overly or even unnecessarily detailed to be updated on an annual basis. That said, we would generally encourage the municipalities to leverage this additional rigour and specificity to best inform the introduction of the new IZ policies at the outset, but thereafter seek to prioritize the *frequency* of any monitoring or update schedules established rather than necessitate a similar level of *detail* in this monitoring process. Based on our earlier discussions, we believe that NBLC shares the same sentiment with respect to the importance of frequent updating, wherever or however possible.

Perpetuity of Affordable Units

Another one of NBLC's targeted recommendations is to “seek affordability for units created through IZ in perpetuity, where possible”. Based not only on the results of their financial analysis but also in support of ongoing municipal strategic objectives (e.g., increasing the supply and indeed the term of

affordable housing supply), we certainly agree with this general direction, while simultaneously appreciating the challenges associated with achieving such an ambitious city-building objective.

As noted as part of other discussions with representatives of the subject municipalities, however, we will caution that this often places undue pressure and reliance on external sources of funding from other levels of government (i.e., depending on the depth of affordability being pursued and/or the specific parameters established as part of the resulting IZ policies and opportunities for exemptions, additional financial incentives, etc.). More broadly, we note that there will undoubtedly continue to be a finite source of provincial and federal funding available to support the creation of affordable housing and municipalities in Peel Region will continue to vie for these moneys in direct competition with other parts of the province and country.

As such, we would simply suggest that the subject municipalities carefully consider the extent to which they are willing, capable and prepared to support affordable housing over the longer-term from a financial perspective, if and where necessary.

Relationship with Other Municipal Strategic Objectives

In our experience, it is important to remain mindful of the balancing act between the full range of municipal strategic outcomes and other land use planning objectives. Even when a full range of preferred outcomes are worthy of consideration, they can—at times—end up representing competing priorities in need of reconciliation.

As it relates to development feasibility, for example, we note that projects can become challenged and overburdened by the cumulative effects of various charges, levies, or other limitations to development. That is, even if a development project shows promise from a return-on-investment perspective in isolation, feasibility can ultimately be impeded upon considering other carve-outs for required affordable housing delivery, parkland dedication, integration of grade-related commercial spaces, heritage preservation, limitations to density / building heights, changes to building design, among a range of other more direct charges and fees associated with new development. As a general rule-of-thumb, we typically observe that any time a given development project is required to dedicate more than 10% of its total floor area to non-revenue generating (or limited-revenue generating) uses, it begins to risk disincentivizing investment. A balanced approach should therefore be taken with respect to municipal expectations around the combined delivery of the specific building and/or community features identified above in conjunction with IZ-related affordable housing. This tempering of expectations and prioritization of outcomes will be particularly important when evaluating implementation in weaker markets and/or in geographies where more significant set-aside rates are being considered.

Although there is no clear-cut solution to these challenges, we recommend that the subject municipalities prioritize relevant city-building objectives. They should also be mindful of the fact that most development projects are not capable of supporting a significant proportion of uses that do not contribute directly—or meaningfully—to revenues.

3.0 Conclusions

Based on our review of the NBLC report and supporting financial analyses, **we support their research conclusions and recommendations with respect to the feasibility of introducing new IZ policies** in the Cities of Mississauga and Brampton, the Town of Caledon and Peel Region.

The following provides a summary of our specific findings in this regard:

- We believe that **the RLV approach and analytical structure adopted by NBLC represents a reasonable and reliable methodology** for understanding the high-level implication of implementing IZ in Peel Region.
- Although we cannot necessarily guarantee the full accuracy and completeness of the various proformas prepared by NBLC, we are sufficiently confident that the RLV approach and analysis described above has been **applied correctly, accurately and in a comprehensive manner**.
- The various **statistical inputs and other assumptions requiring professional judgement** relied upon by NBLC as part of their analysis appear to be **entirely reasonable** and consistent with our own research and experience in this market area.
- Although we have identified a number of potential alternative approaches, assumptions and/or considerations for selected elements of the NBLC study, these would **not result in a material impact to the final results of the study, nor any of the associated study conclusions and recommendations** provided to the municipalities.

- Based on our review of the NBLC findings and recommendations, including in the context of “real world” applications, we generally **agree with the advice and observations made by NBLC in light of the analyses presented.**

Overall, no fundamental deficiencies nor other issues were identified as part of our review, which need to be addressed as part of any future updates or re-issuing of the draft reporting prepared by NBLC to date. Consequently, and as identified at the outset of this opinion letter, it is the professional opinion of urbanMetrics that the study prepared by NBLC on behalf of the subject municipalities **adequately addresses the requirements set out in Ontario Regulation 232/18 with respect to the “Assessment Report” to be prepared in support of the implementation of new IZ policies.**

It has been a pleasure conducting this study on behalf of the Region of Peel, the Cities of Mississauga and Brampton, and the Town of Caledon. We hope that you find this information helpful in your continued efforts to explore the appropriate application of new IZ policies across the Region. Please do not hesitate to contact the undersigned with any questions or comments that you may have, or if further discussion and coordination is required with relevant members of NBLC.

Yours truly,

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