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Realizing the Full Potential of Inclusionary Zoning for Toronto

Three recommendations for a strong, evidence based IZ policy

Jeremy Withers

PhD Candidate | Department of Geography & Planning, University of Toronto
Outreach Coordinator | School of Cities Affordable Housing Challenge Project

Introduction

This analysis provides an overview of the City of Toronto's current Inclusionary Zoning proposal, which will be voted on by Councilors at the October 28th Planning and Housing Committee. It also outlines three recommendations for how to strengthen the City's proposal.

A broad coalition of housing advocacy organizations (including Progress Toronto, ACORN, Parkdale People's Economy, Build a Better Bloor Dufferin, Power in Community, Jane Finch Housing Coalition, and other) and research organizations (including Social Planning Toronto, Maytree, and the Affordable Housing Challenge Project at the University of Toronto's School of Cities) are united in calling on the City to implement a strong Inclusionary Zoning policy, based on the findings of the City's feasibility studies.^{1, 2, 3}

This analysis provides specific recommendations for how the City can strengthen their proposed IZ policy by applying the findings of their own feasibility studies.

It is organized into three sections, each of which advances a recommendation for how the proposed IZ policy could be strengthened, outlining:

1. The potential to increase affordable housing requirements
2. The potential for a faster phase-in of affordable housing requirements
3. The potential to ensure this policy creates mostly affordable rental units, as opposed to affordable ownership units.

1. The Potential to Increase Affordable Housing Requirements

The City of Toronto commissioned housing policy consultants N. Barry Lyons Consulting (NBLC) to conduct IZ feasibility studies in 2019, 2020, and 2021. These studies tested the feasibility of IZ in different areas of the city at different “set-aside rates” (i.e. the percentage of the floor area in new developments required to be set aside for permanently affordable rental housing).

The City’s studies tested whether, after requiring a certain set-aside rate (ie, 10%, 20%, 30% affordable rental), developers could still achieve at least a 15% profit margin on the development, and the owners of the land being redeveloped could still receive at least 10% above the value of their land based on its current use.⁴

The 2021 study found that, after leaving developers and land vendors this modest return, typical **condo developments could be required to include:**

- 30% of their floor area as affordable rental in Downtown and Toronto West
- 20% of their floor area as affordable rental in Toronto East, Yonge-Eglinton Centre, and North York Centre
- 10% of their floor area as affordable rental in Scarborough Centre, Finch West, and Stockyard/Junction

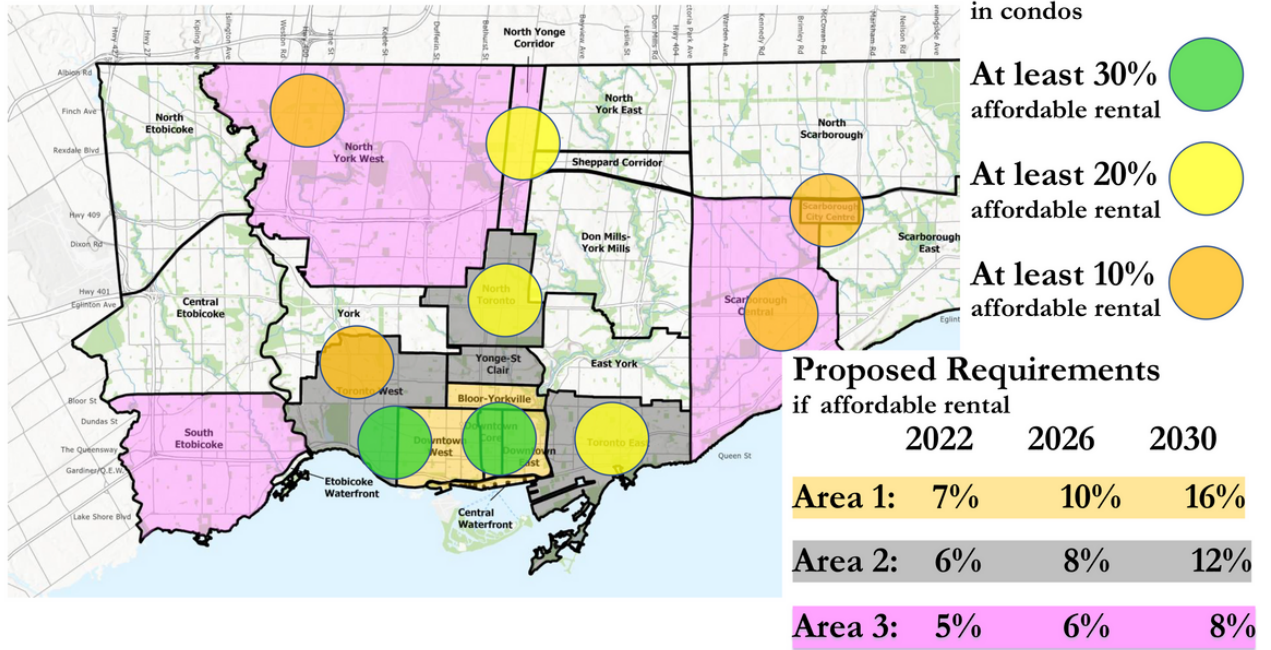
The 2021 study also found that, after leaving developers and landowners this modest return typical **purpose-built rental developments could be required to include:**

- 20% of their floor area as affordable rental in Toronto West
- 10% of their floor area as affordable rental in Downtown
- 5% of their floor area as affordable rental in Yonge-Eglinton Centre and Stockyard/Junction

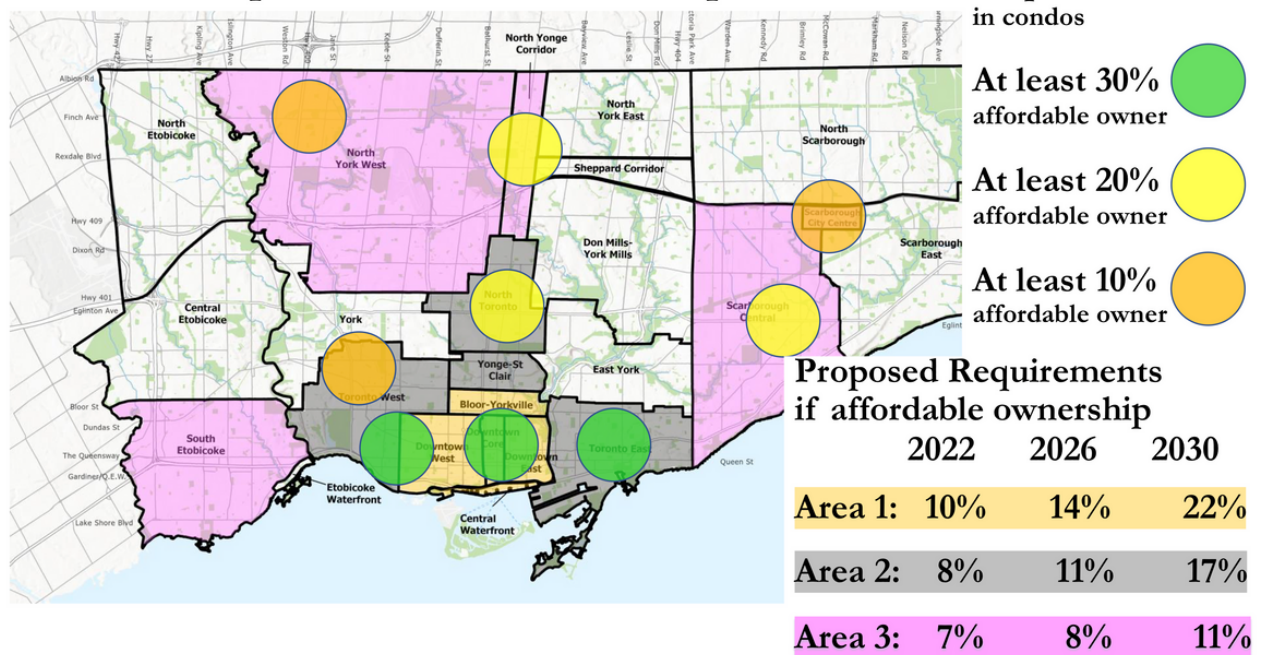
Below is a map I created, which shows these findings and compares them to the weaker IZ requirements the City is proposing throughout Toronto.

In these maps, requirements are viable if developers can still make a motivating 15% profit margin and landowners can still make 10% above the current value of their land.

Viable vs Proposed Inclusionary Zoning Requirements: *Affordable Rental in Condominium Developments*

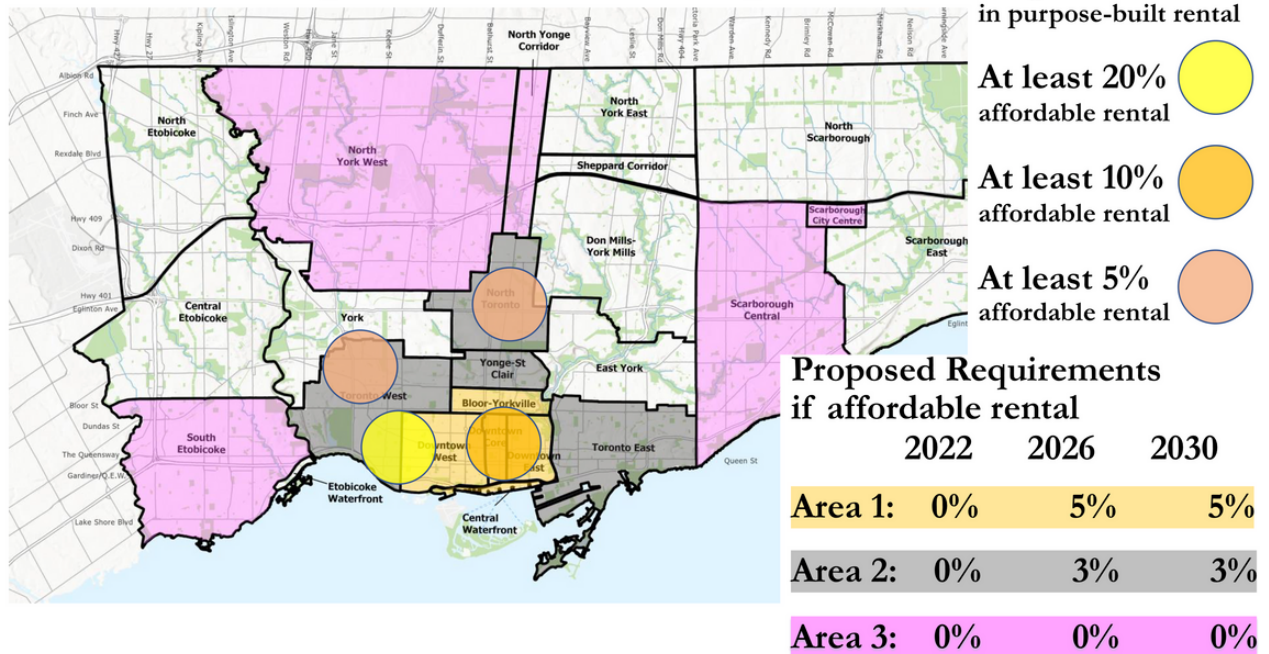


Viable vs Proposed Inclusionary Zoning Requirements: *Affordable Ownership in Condominium Developments*



Source: N. Barry Lyon Consultants Ltd. for the City of Toronto (May 2021; Revised October 2021) "Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2021/10/8f5c-CityPlanningUpdateEvaluationPotentialImpactsInclusionaryZoningPolicy.pdf>.

Viable vs Proposed Inclusionary Zoning Requirements: Affordable Rental in Purpose-built Rental Developments



Source: N. Barry Lyon Consultants Ltd. for the City of Toronto (May 2021; Revised October 2021) "Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2021/10/8f5c-CityPlanningUpdateEvaluationPotentialImpactsInclusionaryZoningPolicy.pdf>.

The City's 2021 feasibility study makes clear that right now, *requirements could be set nearly twice as high as the City is proposing to raise them to by 2030*, while still leaving developers a 15% profit margin and landowners 10% above the current value of their land.

Housing advocates are united in asking Councilors to vote for an IZ policy that follows the evidence, to realize the full potential of IZ to address our city's housing crisis. Below are recommendations for affordable housing requirements (i.e. set-aside rates) based on the 2021 feasibility study's findings.

Evidence-based recommendations for a fully-phased-in IZ policy:

Area 1

- 30% affordable rental in condos
- 10% affordable rental in purpose-built rental

Area 2

- 20% affordable rental in condos (except 10% in the Junction)
- 5% affordable rental in purpose-built rental (except 0% in Toronto East)

Area 3

- 10% affordable rental in condos (except 20% in North York Centre)
- 0% affordable rental in purpose-built rental (but report back annually on feasibility)

2. The Potential for a Faster Phase-in of Affordable Housing Requirements

The City's proposed IZ policy recommends a long, slow transition period, phasing in the full affordability requirements over 8 years. The initial IZ requirements are proposed to be in place as of Sept 18, 2022, stay static until January 2025, and then begin slowly rising until Jan 2030.

As can be seen on the maps above, the initial IZ requirements for new condo developments are proposed to begin at rates significantly lower than the rate they will fully phase in to by 2030. In 2022, requirements will be only: 44% of their fully-phased-in rate in Area 1; 50% of their fully-phased-in rate in Area 2, and 63% of their fully-phased in rate in Area 3. Affordability requirements for purpose-built rental projects are proposed to begin at 0%. After Jan 1st, 2026, they will rise to 5% in Area 1 and 3% in Area 2 and remain static through to 2030.

Although the phase in of IZ requirements appears to be unnecessarily slow, it's not unreasonable that the City is seeking to phase in IZ requirements over a number of years. This will give vendors an opportunity to adjust to the new reality of more modest bids from developers seeking to redevelop their land. As the City's 2021 study explains, "[n]otwithstanding the long-term value

capture opportunity that may exist with an IZ policy, at the instance of policy change it is pragmatic to ensure that the new policy does not create a market shock."⁵

To support planners in adjusting the pace of this phase in, the spring 2021 feasibility study was revised at the last minute, this October, to include an additional test. In an attempt to prevent an initial "market shock" caused by land vendors refusing to sell to developers, the revision sought to look beyond whether landowners could receive at least 10% above the value of their land based on its current use. Recognizing that land's value is typically increased significantly when the City provides approvals for additional density (above what their land is currently zoned for), this second test checks how much affordable housing requirements would reduce that speculative value, which land vendors currently hope the City will provide their land through a rezoning. This second test is truly conservative, only allowing affordable housing requirements to produce a 15% reduction in this speculative value of land. NBLC describes this as a "conservative check intended to support the sensitive implementation of an initial IZ policy"; one they expect to become "less relevant in time...as the land market adjusts."⁶

In the context of a mounting affordable housing crisis, housing advocates are united in rejecting the notion that the City should be trying to protect the huge windfalls landowners have come to expect when selling their land for redevelopment. It is understandable that the City would want to phase-in affordable housing requirements, to make land markets adjust over a number of years. But it is not recommended that the City unnecessarily protract this process, by not raising requirements until January 2025, and then slowly phasing in towards rates that, by 2030, will still be around half of what the 2021 feasibility study found could be required while leaving the development industry a modest return now. This slow approach is based on the idea that the City should wait to see “if” the land market adjusts, after which “set asides rates could potentially be increased *as the market dictates.*”⁷

This is a highly conservative way to conceive of IZ powers, especially in a City with such a fast growing and lucrative housing market. Landowners cannot be expected to adjust their speculations until they are made to. To ensure an effective phase-in of IZ requirements, the City should not wait to see “if” the land market adjusts; it should indicate to the market the period over which land vendors will need to adjust to the new normal: receiving around 10% above the lands value based on current use. Ironically, NBLC themselves highlight the proactive role the City will need to take to ensure land markets adjust to IZ. In another passage discussing phase-in periods, they explain: “It would be valuable to signal in advance the intention to impose an IZ

policy as far ahead as possible to allow the market to adjust”, so that, “the market can price the policy into future land acquisition.”⁸

A five-year phase in period, arriving at full IZ requirements by September 2026, is a reasonable amount of time to make land vendors adjust to the new normal.

3. The Potential to Ensure this Policy Creates Mostly Affordable Rental Units, as Opposed to Affordable Ownership Units

It is important to note that, based on current Provincial regulation, developers have the right to choose whether to meet their IZ affordable housing requirements by providing affordable rental units or affordable ownership units. Affordable rental units will be affordable to households that are significantly lower income than the households to whom the affordable ownership units will be affordable.

According to the City's proposal, based on Toronto households' income in 2021, to afford an affordable rental unit:

- **studio unit**, a household's income would have to be at least \$32,486
- **1-bedroom unit**, a household's income would have to be at least \$43,600
- **2-bedroom unit**, a household's income would have to be at least \$66,440
- **3-bedroom unit**, a household's income would have to be at least \$74,301

According to the City's proposal, based on Toronto households' income in 2021, to afford an affordable ownership unit:

- **studio unit**, a household's income would have to be at least \$44,552
- **1-bedroom unit**, a household's income would have to be at least \$58,286
- **2-bedroom unit**, a household's income would have to be at least \$73,628
- **3-bedroom unit**, a household's income would have to be at least \$91,611

Affordable rental and affordable ownership units are proposed to remain affordable for 99 years.

Consequently, most housing advocates agree it is desirable that the City design their IZ policy to ensure developers primarily choose to meet their affordability requirements by producing affordable rental units.

Many developers I've spoken to have indicated they would "flock" to providing affordable ownership units to meet their IZ affordable housing requirements, if the revenue reduction they would incur by providing affordable ownership units is the same as it is for affordable rental.

Concerningly, staff have clarified that, as currently proposed, the set-aside rates are set to ensure the cost of choosing one or the other is the same to developers.

Consequently, housing advocates are recommending that the requirements for affordable ownership are increased.

As currently proposed, required set-aside rates are 40% higher for affordable ownership. To ensure developers are incentivized to choose to provide affordable rental, it is recommended that affordable ownership requirements are at least 50% higher.

Conclusion

Right now, Toronto has 5 times more cranes in the sky than any other city on the continent.⁹ The city has built record-breaking amounts of new high-rise housing over the past decade. But despite this surge in supply, the price of housing has risen out of reach of the vast majority of residents.

Toronto's new housing supply is being bid up and bought out by a surge in demand from wealthy investors, accruing portfolios of housing. Across the GTA, at least 57% of newly built condos units were bought by investors in 2020.¹⁰ In the City of Toronto,

the proportion is far higher; over 80% is a common estimate from development industry analysts.

When they're not left vacant, these investment properties are rented out at the least affordable rates in the city.¹¹

It is a bitter irony that the growing number of households forced to pay more than half their income on rent – over 120,000 and rising – are mostly concentrated in areas that have experienced the largest boom in housing development.¹²

A well-designed I.Z. policy has the potential to expand access to affordable housing in these unaffordable areas for thousands of households every year, without costing taxpayers a dime.

It's high time for Toronto to join the over 500 jurisdictions in North America that use IZ to ensure new developments serve the needs of most residents – not just wealthy investors. In NYC 25%-30% of units in new housing developments are required to be affordable in many areas of the city. In Montreal, 35%-40% affordability is now required.

Toronto is among the fastest growing and least affordable housing markets in the world; it can and should aim higher. Councilors should follow the evidence, voting for an IZ policy that realizes its full potential: changing the lives of tens of thousands of households desperate to secure an affordable place to call home.

Footnotes

1. N. Barry Lyon Consultants Ltd. (NBLC) for the City of Toronto (May 2021; Revised October 2021) "Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2021/10/8f5c-CityPlanningUpdateEvaluationPotentialImpactsInclusionaryZoningPolicy.pdf>.
2. NBLC for the City of Toronto (May 2020) "Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2020/09/8fd6-CityPlanning-Toronto-IZ-Update-Draft-May-2020.pdf>.
3. NBLC for the City of Toronto (May 2019) "Evaluation of Potential Impacts of an Inclusionary Zoning Policy." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2019/05/90b6-Final-Draft-City-of-Toronto-IZ-Analysis-May-21-accessible.pdf>.
4. The City's revised, October 2021 feasibility study also includes this test to determine feasible set-aside rates, but includes an additional "conservative check intended to support the sensitive implementation of an initial IZ policy"; one they expect to become "less relevant in time...as the land market adjusts" (see page 14: <https://www.toronto.ca/wp-content/uploads/2021/10/8f5c-CityPlanningUpdateEvaluationPotentialImpactsInclusionaryZoningPolicy.pdf>). The implications of this conservative check, which was designed to support the phase in of IZ requirements, are discussed in Section 2.
5. See page 28 in NBLC for the City of Toronto (May 2021; Revised October 2021) "Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2021/10/8f5c-CityPlanningUpdateEvaluationPotentialImpactsInclusionaryZoningPolicy.pdf>.
6. See page 14 in NBLC for the City of Toronto (May 2021; Revised October 2021) "Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2021/10/8f5c-CityPlanningUpdateEvaluationPotentialImpactsInclusionaryZoningPolicy.pdf>.
7. Emphasis mine. See page 32 in NBLC for the City of Toronto (May 2021; Revised October 2021) "Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2021/10/8f5c-CityPlanningUpdateEvaluationPotentialImpactsInclusionaryZoningPolicy.pdf>.
8. See page 28 in NBLC for the City of Toronto (May 2021; Revised October 2021) "Update: Evaluation of Potential Impacts of an Inclusionary Zoning Policy." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2021/10/8f5c-CityPlanningUpdateEvaluationPotentialImpactsInclusionaryZoningPolicy.pdf>.
9. Hanrahan, Laura (July 6, 2021) "Toronto has more cranes than any city in North America." Urbanized. <https://dailyhive.com/toronto/toronto-most-cranes-north-america>.
10. See page 98 in Canada Mortgage and Housing Corporation (January 2021) "Rental Market report: Canada and Selected Markets." Canada Mortgage and Housing Corporation. <https://assets.cmhc-schl.gc.ca/sites/cmhc/data-research/publications-reports/rental-market-reports/2020/rental-market-report-69720-2020-en.pdf?rev=936ca622-a6c5-4cbc-b937-d29b1d63cc14>.
11. City of Toronto (August 2021) "Inclusionary Zoning Assessment Report: Housing Need and Demand Analysis." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2021/10/95b5-CityPlanning-IZ-Assessment-Report-Need-and-Demand-2021.pdf>.
12. See page 32 in City of Toronto (August 2021) "Inclusionary Zoning Assessment Report: Housing Need and Demand Analysis." City of Toronto. <https://www.toronto.ca/wp-content/uploads/2021/10/95b5-CityPlanning-IZ-Assessment-Report-Need-and-Demand-2021.pdf>.

Acknowledgements

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About

The Affordable Housing Challenge Project is an initiative of the University of Toronto School of Cities. The AHCP collective brings together scholars from across the University of Toronto, who are researching issues related to housing affordability from different disciplinary perspectives, with the objective of working together to research, discuss and debate the causes, processes, policies and consequences of declining housing affordability.

Media Inquiries

Members of the Affordable Housing Challenge Project are subject experts in many housing and urban planning related matters and available for comment. Please contact affordablehousing.sofc@utoronto.ca.

Contact

www.affordablehousingchallenge.ca
affordablehousing.sofc@utoronto.ca
University of Toronto School of Cities
Myhal Centre, Suite 853
55 St. George Street, Toronto, ON M5S 0C9