

November 28, 2016

Standing Committee on Social Policy
~ Promoting Affordable Housing Act, 2016 ~
Bill 7

It has been well-documented that Ontario is facing a growing crisis of housing affordability and that families are facing barriers to find housing that they can reasonably afford. This crisis is not limited to the skyrocketing costs of home ownership—families who rely on rental housing are facing significant impediments to finding the rental housing they can afford in locations connected to their work, schools, and other community supports.

Evidence in other jurisdictions has shown that creating more affordable housing can only be achieved by encouraging more supply and development of new housing. The Federation of Rental-housing Providers of Ontario (FRPO) strongly believes that this also holds true for Ontario. **Building more rental housing in Ontario will create more affordable housing in Ontario.** More supply means lower rents and more choices for Ontario families.

According to the Canada Mortgage and Housing Corporation (CMHC), the average annual demand for new rental housing in Ontario is 18,000 new units, however the number of new units being made available for rent is less than 5,000 annually. This deficit of over 13,000 rental units every year is what defines the current rental housing crisis, and it continues to get worse.

In the early 1990s, there was an average of over 11,000 units being added annually to the available rental stock to meet the needs of Ontario families. Today we see less than half that number coming online primarily due to restrictive government policies such as rent control constraints and high development fees that make it uneconomical to build rental housing in the province. In other markets, there is significant activity in building new rental buildings—however it is happening in jurisdictions outside of Ontario, primarily in select cities in the United States.

In collaboration with the Ontario government and a number of municipalities, FRPO tabled its most comprehensive, evidence-based action plan in 2015 on how to remove the barriers to building more rental housing in Ontario. FRPO was discouraged to see that only one component of its recommendations were adopted as part of the update to Ontario's *Long Term Affordable Housing Strategy* in March of this year, namely the launch of a pilot initiative of

a portable housing benefit for victims of domestic violence in select communities. While FRPO supports this pilot initiative, the evidence available on the success of the broad implementation of portable housing benefits to removing barriers for low-income families seeking rental housing is overwhelming. In fact, the Region of Peel was successful in reducing its own waiting list by over 8,000 through the introduction of a portable housing benefit for families who qualify by retooling their funds as a service manager. In other jurisdictions, such as Australia, England, France, Germany, Ireland, Sweden, and the United States, they are increasing the use of portable housing benefit programs to provide better housing assistance at lower cost.

From our perspective, this is a significant lost opportunity for Ontario families to not have wider access to this efficient solution for helping needy families find the rental housing they need without having to navigate a complex network of social services support offices that is costly to—and places a heavy administrative burden on—the government.

Another component of the March 2016 announcement of the *Long Term Affordable Housing Strategy* was the proposed implementation of *Inclusionary Zoning* legislation that would require any new housing development in the province to contain a prescribed number of units to have a price (purchase or rental rate) set below market levels. The evidence on inclusionary zoning programs that have been implemented in other jurisdictions such as Chicago, New York and San Francisco shows that those jurisdictions did not achieve their targets to increase the supply of affordable housing, either because the program was too complicated for developers to navigate, or there were insufficient incentives to entice the degree of new development required.

It is FRPO's view, supported by evidence, that the best way to create more affordable housing is to support the creation of new housing supply overall. **The private sector rental housing industry has the specialized knowledge and financial capital available to invest in the creation of new rental housing in Ontario—what is needed is a stable and positive business environment to encourage the investment of this available capital here in Ontario.**

We call upon the Ontario government to re-evaluate its plans to introduce inclusionary zoning into Ontario. The evidence in Ontario suggests restrictive government policies have strongly contributed to the shortage of rental housing at all price levels. The evidence in other jurisdictions where inclusionary zoning has been introduced reveals the policy has not delivered the anticipated affordable rental housing as intended. It has also been found to be a very complicated policy that is difficult to implement, administer, and maintain.

Throughout our participation in the public consultation sessions throughout June and July of this year, ministry staff made several assertions that there is no indication that the province would be providing any form of financial subsidies to developers to implement the proposed inclusionary zoning policies. In the inclusionary zoning initiatives implemented in the United States, a core component to the program included significant subsidies to provide the necessary incentives to promote new development. Even with those financial incentives, the results in every jurisdiction we reviewed fell short of the development targets. With no



financial subsidies and unclear incentives in the proposed Ontario model, it is unclear how this proposed inclusionary zoning policy could succeed where other enhanced models have not.

There are much better solutions available to the Ontario government on ways to help build Ontario up through the creation of much needed new rental housing stock across the province. We have, in fact, researched, detailed and submitted them to our government in our report, *'Removing Barriers to New Rental Housing in Ontario'* last year (available on our website). But since the focus of the Standing Committee hearings is limited to Bill 7, which includes the serious and specific topic of Inclusionary Zoning, this submission details FRPO's recommendations pertaining to Bill 7.

SUMMARY OF FRPO RECOMMENDATIONS

Local Flexibility

A key component to maximizing any positive benefit from inclusionary zoning programs is local flexibility. This is something that is highlighted in every analysis that we have reviewed on this type of policy.

Municipalities need to be able to make local decisions about whether inclusionary zoning will be an effective way to achieve their affordable housing objectives. Should a municipality choose to proceed with an inclusionary zoning bylaw, they need the flexibility to design the bylaw in a way that meets their local objectives.

Another important consideration is the unique nature (including density and demographics) of the regional housing markets across the province. Ensuring flexibility will allow rural and northern municipalities the ability to develop bylaws that recognize and reflect the diverse needs of housing in their communities.

Cash-in-Lieu & Offsite Units (requires amendment to current bill)

Amending the legislation to allow municipalities to accept cash-in-lieu and offsite buildings would enable much needed local flexibility. Cash-in-lieu policies have been included in other jurisdictions as a tool to generate affordable housing, most often in the case of smaller developments where implementing inclusionary zoning may be unfeasible.

For example, in small rural and northern communities there are few large multi-residential developments. Smaller buildings with fewer units—take for example, a fourplex forced to set aside 5% of its units—will have greater difficulty meeting unit set aside requirements. Allowing cash-in-lieu or offsite would be a practical solution to these types of challenges.

FRPO recommends that Ontario should allow municipalities to collect cash-in-lieu as an alternative to inclusionary zoning, and require those funds to be dedicated to a portable housing benefit for low to moderate income Ontarians.

A cash-in-lieu policy which requires municipalities to provide a portable housing benefit would be an extremely effective tool that would directly deliver on the government's objective of integrated mixed income communities.

Several municipalities have implemented cash-in-lieu policies to stimulate more affordable housing, including New York City, Vancouver, Chicago and San Francisco.



The province should also consider the unique needs of small, rural, and northern municipalities where smaller projects may not be able to meet a threshold. To address these types of implementation challenges other alternatives should be allowed such as cash-in-lieu and offsite units.

The government should also allow offsite units in inclusionary zoning. New or existing rental buildings within an inclusionary zone could have units identified to be part of the inclusionary zoning program. This would still enable inclusionary zoning policy objectives but could address implementation challenges resulting from project size or neighbourhood.

Section 37

FRPO also strongly supports the restriction of Section 37 of the *Planning Act* for inclusionary zoning projects. Requiring units to be rented at less than market rents impacts the financial feasibility of a development. Restricting Section 37 will partially offset financial impacts of inclusionary zoning by helping to reduce the costs of development for new rental housing.

Currently, Section 37 fees represent approximately 17 percent of the cost of a new multi-residential unit in the City of Toronto. The provincial government should seek to improve transparency and consistency with how development fees are imposed under Section 37.

It is imperative that a municipality be prevented from imposing both Inclusionary Zoning requirements in addition to the application of further Section 37 requirements on any new development plan. The imposition of Section 37 fees in addition to inclusionary zoning will make the cost of building new affordable rental housing in Ontario economically unfeasible.

Incentives

FRPO recommends that municipal measures and incentives must be available, and be required by regulation on a province-wide basis to stimulate the development of new rental housing development. Without incentives, or funding, in a restricted environment, the development of new affordable rental housing will become economically unfeasible and the government will be unable to achieve its objectives. The rate of return must be considered in the financial business case for any new development.

In the majority of jurisdictions where inclusionary zoning has been implemented, there has been significant government funding, or incentives, or both, to encourage and support the private sector's investment in new rental housing development. Examples include New York City, Montreal and Vancouver.

IZ Program Participants -- Price & Rent Guideline

FRPO recommends that inclusionary zoning policies should target moderate income households with an ability to pay a lower than average monthly rent.

Affordable rent should be defined as 80 percent of average market rent in a community. This proposal is in line with other jurisdictions that have implemented inclusionary zoning, including New York City, Boston and Chicago who required income targets of 80 to 100 percent of average median income.

Both New York City and Vancouver's housing policies have sought to address moderate income households who are unable to afford average market rent due to the high costs of



housing. A similar policy in Ontario would target families that need some support and help them to transition into full market participation over the long term.

Finally, FRPO feels very strongly that rent increases, for inclusionary zoned units, should be maintained at 80 percent of average market rent in a community. As long as the 80 percent of market rent is maintained there is no need to apply the annual rent increase guideline which would add complicated administrative burden and negatively impact the housing provider's ability to operate and maintain a high quality rental building. If program candidates are well identified as described above, then maintaining the unit rent at 80 percent of market rent will meet the objectives of inclusionary zoning policy.

Transition

FRPO recommends that planning applications that were submitted prior to the adoption of a municipal inclusionary zoning bylaw should be exempted/grandfathered. Applications should continue under the rules in place at the time the application was submitted, for which the due diligence and financial modeling used in the project's business case were based.

CONCLUSION

FRPO and the provincial government have long shared the common objective of seeking out ways to encourage the building of new rental housing in Ontario. The current rental housing stock levels are not meeting the needs of Ontarians across all income levels, not just those who are deemed low-income households. Where we stand apart is on what the best policies are that will help deliver on this important objective of providing the housing that families can afford.

Building more rental housing in Ontario will create more affordable housing. The cost of building rental housing today is higher than in decades past—the cost of land, rising development charges and property taxes, energy, and the cost of materials to comply with new building standards. Supply lessens demand; if more supply comes into the market, rents will be lower.

It continues to be unrealistic to expect that government policies such as rent control and inclusionary zoning that keep rents artificially low will also then incent developers to make further investments in a market that offers insufficient investment returns. For the last several decades, many housing developers based in, or with ties to Ontario are building new rental housing—they are just not building it here.

When we look at the experience in other jurisdictions where inclusionary zoning has been introduced, they have consistently failed to deliver on the initial program targets, which calls into question the effectiveness of the program to achieve policy objectives. According to the Center for Housing Policy of the National Housing Conference in the United States, there are several key factors that are associated with inclusionary zoning programs that have come the closest to achieving the program targets. When applied to the current proposal being



considered for Ontario, this analysis supports our recommendations and our concern that inclusionary zoning will not work to provide more affordable housing in Ontario.

- **Inclusionary zoning works better in strong housing markets**—When there is no market rate construction taking place, there is no affordable housing development either.
- **More effective inclusionary zoning programs include incentives that offset the cost to developers**—the proposed model for Ontario does not currently include any allowance for incentives to housing providers to build new housing, which would suggest the program will ultimately have little positive effect.
- **More effective inclusionary zoning programs have flexible compliance options**—the current consultation document has sought input from stakeholders on different mechanisms to design and enforce compliance requirements. As reflected in our specific comments in this paper, we strongly encourage the government to ensure there is maximum flexibility provided to developers on how to comply with any program requirements so that the development plan can appropriately reflect local conditions and requirements.
- **Predictable programs with clear guidelines are most effective**—throughout these consultations there has been little in the way of a baseline model put forward by the government for stakeholders to evaluate, suggesting to housing providers that policies could continue to evolve during the years following program introduction. The lack of predictability in provincial government policy when it comes to rental housing is one of the key issues identified by rental housing providers as to why they have not and are not making investments in Ontario.

FRPO remains committed to engaging with the provincial government on ways to achieve our shared goal of increasing the amount of affordable rental housing in Ontario, and we look forward to an ongoing dialogue and exchange of information.

Sincerely,



Scott Andison
President & CEO

The Federation of Rental-housing Providers of Ontario (FRPO) represents those who own, manage, build and finance, service and supply residential rental homes. FRPO has led the rental housing industry in Ontario for over 30 years and represents more than 2,200 members who own or manage over 350,000 rental households in every area of Ontario.

