



Report to: Development Services Committee

Report Date: February 25, 2019

SUBJECT: Federal, Provincial and Regional Affordable and Rental Housing Initiatives

PREPARED BY: Murray Boyce M.C.I.P., R.P.P., Ext 2094
Senior Policy Coordinator

REVIEWED BY: Marg Wouters M.C.I.P., R.P.P., Ext. 2909
Senior Manager, Policy and Research

RECOMMENDATION:

- 1) That the report entitled “Federal, Provincial and Regional Affordable and Rental Housing Initiatives” dated February 25, 2019 be received;
- 2) That the Federal Minister responsible for the Canada Mortgage and Housing Corporation be advised of Council’s support for the National Housing Strategy and the City of Markham’s interest in partnering with senior levels of government, non-profit housing organizations and rental cooperatives, and the private sector on a future eligible affordable and rental housing project in Markham;
- 3) That the report entitled “Federal, Provincial and Regional Affordable and Rental Housing Initiatives” dated February 25, 2019, be forwarded to:
 - a) the Assistant Deputy Minister of Municipal Affairs and Housing and that Council express its support for inclusionary zoning and request the Province to provide additional financial incentives such as the deferral of provincial education development charges and an allocation of a portion of the non-resident speculation tax collected in York Region, in support of future eligible affordable and rental housing projects in Markham; and
 - b) the Commissioner of Corporate Services and the Chief Planner of York Region in response to the request for comments on the draft Rental Housing Incentives Guideline for purpose built rental housing, and that Council express its support for the Guideline and request the Region to consider a 60 month Regional development charge deferral, and a tax increment equivalent grant program for the Regional portion of property taxes for up to 10 years, in support of future eligible affordable and rental housing projects in Markham;
- 4) That the updated Affordable and Rental Housing Strategy for the City of Markham, to be brought forward for Markham Council considerations, include options for inclusionary zoning and additional financial incentives in response to the Region’s draft Rental Housing Incentives Guideline, including a 60 month development charge deferral, a 48 month development application fee deferral, and an incentive

equivalent to a 10 year tax increment equivalent grant on the Markham portion of the property taxes, for eligible affordable and rental housing projects in Markham;

- 5) And that Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

This report outlines recent affordable and rental housing initiatives underway by senior levels of government including the Federal National Housing Strategy and Seed Funding Programs; the Provincial Regulation for Inclusionary Zoning, and the Region's draft Rental Housing Incentives Guideline.

While the current housing supply in Markham is meeting the demands of the majority of its residents, the needs of many low and modest income households are not adequately being met in the traditional market. Markham continues to work in close partnership with senior levels of government, non-profit housing organizations and community cooperatives, and the private sector to increase affordable and rental housing options at all price points.

It is recommended that Council express its support for these Federal, Provincial and Regional Housing Initiatives, and forward this report containing initial comments to Provincial and Regional Staff, in support of future affordable and rental housing projects in Markham. It is also recommended that Staff provide further detailed comments on these initiatives including options for implementing the provincial inclusionary zoning regulation and additional financial incentives proposed by York Region, within the context of an update to the City's Affordable and Rental Housing Strategy.

PURPOSE:

To provide an update and initial comments on recent Federal, Provincial and Regional affordable and rental housing initiatives and obtain directions for the City's Affordable and Rental Housing Strategy.

BACKGROUND:

Updating Markham's Affordable and Rental Housing Strategy

At its meeting of September 12, 2018, Council requested staff to report back on an updated Affordable and Rental Housing Strategy for the City of Markham, including options for inclusionary zoning and additional financial incentives, in response to provincial and regional housing incentives.

Staff has begun work and will be reporting separately on an updated housing needs assessment in support of this Strategy. The housing needs assessment will identify the current and emerging housing needs in Markham and will determine, among other things, who is in greatest housing need and how these needs can be addressed by an inclusionary zoning policy and/or additional financial incentives for affordable and rental housing.

Affordable and Rental Housing

Affordable Housing is aimed at households in the lowest 60 percent of the income distribution in Markham, many of which are likely experiencing affordability challenges because they are having to spend more than 30 percent of their income on ownership or rental housing. In 2017, for households with incomes of \$112,670 or less, the affordable ownership threshold was \$457,694 and the affordable rental thresholds ranged from \$1,115 for a bachelor unit to \$1,905 for a unit with three or more bedrooms.

Rental housing is provided through purpose-built rental housing developments (which may be rented at market or affordable rents or a combination thereof) or the secondary rental market (which are individually rented dwelling units in condominium apartment buildings or ground related dwellings including secondary suites). While the investor-owned condominium rental market continues to provide a significant secondary source of rental housing in Markham, the overall rental market vacancy rate fell from 1.4 percent in 2016 to 0.9 percent in 2017.

No significant purpose-built market rental developments have been constructed in Markham for some time and only 120 non-profit government assisted affordable rental housing units (East Markham Non-Profit Homes/Tony Wong Place) have been built in the past ten years.

Markham has undertaken a number of policy initiatives aimed at increasing the supply of new affordable and rental housing units, including but not limited to:

- completion of an Affordable and Special Needs Housing Study, and a Shared and Supportive Housing Policy Review in 2011;
- release of a Draft Strategy for Affordable and Special Needs Housing in 2011;
- adoption of a new affordable and shared housing policy framework in the 2014 Official Plan; and
- release of a Draft Strategy for Secondary Suites in 2018.

During that time, Council approved financial incentives in support of eligible affordable ownership units in the Old Kennedy Co-operative development, and eligible affordable rental units in the East Markham Non-Profit Homes developments at Tony Wong Place and 20 Water Street. Markham's current financial incentives framework for affordable and rental housing is contained in Appendix 'A' to this report.

DISCUSSION:

Federal Affordable and Rental Housing Initiatives

In November 2017, the Federal government announced a 10-year \$40 billion National Housing Strategy, administered in part by the Canada Mortgage and Housing Corporation (CMHC), which includes over \$10 billion in program funding to support construction of new affordable and rental housing, notably:

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- a 10-year \$7.45 billion National Housing Co-Investment Fund providing low-cost loans and/or financial contributions to support and develop new mixed-income, mixed-tenure, mixed-use affordable housing; and
 - a 4-year \$3.75 billion Rental Housing Construction Financing program providing low-cost loans to encourage the construction of new rental housing.

All applications for funding will be prioritized based on the achievement of National Housing Strategy outcomes including factors such as affordability, energy efficiency, accessibility, proximity to transit, amenities and community supports, partnerships, social inclusion and supporting federal priority groups. In addition to the National Housing Strategy, CMHC also provides Seed Funding in the form of interest-free loans and non-repayable contributions to help with costs related to pre-development activities for new affordable and rental housing construction.

An overview of these federal housing initiatives is contained in Appendix 'B' to this report. They are currently available to a variety of housing providers including non-profit housing organizations and rental cooperatives, provincial and municipal governments, and the private sector.

Partnerships are a central feature of the Federal Seed Funding and National Housing Strategy Funding programs. Partnerships maximize investments, ensure coordination of efforts and remove barriers to eligible development projects. Partners will be required to contribute to an eligible project and all projects must have support from another level of government either in the form of a financial contribution or even a letter demonstrating the need and support for the project.

Comments on National Housing Strategy and Seed Funding

If Markham were to partner with a non-profit, Housing York or private sector partner or combination thereof, an eligible affordable or rental housing project could receive:

- CMHC Seed Funding of up to \$500,000, and/or CMHC low-cost loans of between 75-95% of eligible costs; and/or
- CMHC financial contributions between 15-40% of eligible costs through the National Housing Strategy Co-Investment Fund; and/or
- a CMHC low interest loan of between 90-100% of the cost through the National Housing Strategy Rental Construction Financing Program.

It is recommended the Federal Minister responsible for CMHC be advised of Council's support for the National Housing Strategy and the City of Markham's interest in partnering with a senior levels of government, non-profit housing organizations and rental cooperatives, and the private sector on a future eligible affordable and rental housing project in Markham.

Provincial Affordable and Rental Housing Initiatives – Inclusionary Zoning

In 2016, the Province introduced new Planning Act legislation under the Promoting Affordable Housing Act enabling municipalities to adopt Official Plan policies and pass zoning by-laws related to inclusionary zoning. Inclusionary zoning is a planning tool that allows municipalities to require developers to include affordable ownership and rental units in residential developments. Inclusionary zoning decisions must be consistent with the Provincial Policy Statement which provides a definition of “affordable” as generally households which do not pay more than 30 percent of household income on accommodation and with household incomes in the lowest 60 percent of the income distribution in Markham.

The inclusionary zoning legislation came into effect on April 12, 2018 when the Province passed regulations authorizing municipalities to apply inclusionary zoning by-laws to developments of ten or more units for both ownership and rental units based on local needs and priorities. A copy of the inclusionary zoning regulation and an outline of the main components of the regulation is contained in Appendix ‘C’ to this report.

Comments on Inclusionary Zoning and Other Provincial Incentives

The City supports the inclusionary zoning regulation introduced by the Province and at the request of Council, will be moving forward with development of options for inclusionary zoning that will require large-scale development to include affordable and rental housing units. Work is underway on an updated housing needs assessment that will, among other things, address the inclusionary zoning regulation requirement for an assessment report. Staff will be reporting out on the housing needs assessment this Spring and reporting on inclusionary zoning options to Council as part of the update to the City’s Affordable and Rental Housing Strategy.

City Finance Staff are currently reviewing extending its current development charges fee deferral program for affordable ownership and affordable rental housing to purpose-built market rental housing. While it is disappointing that the previous government’s commitment of \$2.85 million in Development Charge Rebate funding has been discontinued, the City looks forward to working with the Province on other provincial incentives to promote the development of new rental housing.

In place of the discontinued rebate program, the Province could participate in a development charge deferral program for purpose-built market rental housing complementary to the deferral programs contemplated by York Region and Markham. Similarly, the Province could participate in the proposed Regional municipal tax increment equivalent grant program for purpose-built market rental housing by contributing the portion of the provincial non-resident speculation tax collected in York Region as outlined further in this report.

It is recommended that this report be forwarded to the Province and that Council express its support for inclusionary zoning and request the Province to provide additional financial incentives such as the deferral of provincial education development charges and

an allocation of a portion of the non-resident speculation tax collected in York Region, in support of future eligible affordable and rental housing projects in Markham.

Regional Affordable and Rental Housing Initiatives

In 2016, Regional Council supported the formation of a York Region/Local Municipal Housing Working Group and directed Staff to report back on the necessity and/or extent of a housing incentives framework. In addition to the existing Regional development charges incentives for affordable rental housing projects and purpose-built high density rental buildings, the Working Group focused on the development of incentives for the mid-range affordable segment of the housing market.

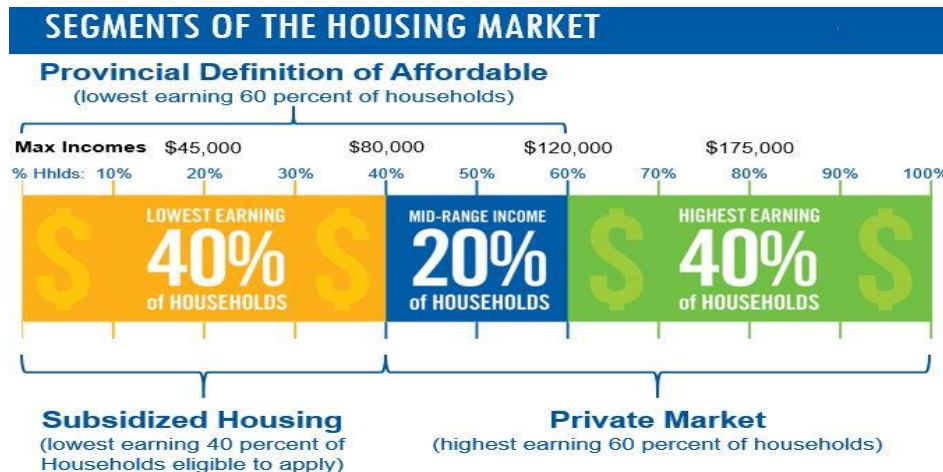
As shown in the Region’s figure below, there are three distinct segments of Regional households based on household incomes, although it is recognized there is overlap and gaps in the segments particularly between the low and mid-range income households.

The subsidized housing segment refers to those households that are unlikely to find housing they can afford in the private market and are in need of some type of subsidy. This is the lowest earning 40 per cent of households, and they earn up to an income of \$80,000 per year.

The mid-range household income segment includes households classified as requiring housing that is affordable based on the Provincial definition of affordable. These households have incomes that are too high to be eligible to apply for subsidized housing, but too low to afford much of what is available in the private market. They have household incomes that range between \$80,000 and \$120,000 per year.

The remaining highest earning segment includes the 40% of households that earn an income of over \$120,000 per year.

Distribution of Regional Income Households



Currently, the private sector is not delivering a product like purpose-built market rental housing that is affordable to mid-range income households.

In June 2018, Regional Council endorsed a draft Rental Housing Incentives Guideline to address the purpose-built market rental housing supply and affordability issues for mid-range income households.

The proposed Regional Housing Incentives consist of:

- the existing 36 month Regional development charge deferral;
- a proposed tax increment equivalent grant for the Regional portion of property taxes for up to five years; and
- a 48 month deferral of development application fees for eligible purpose-built market rental developments.

In support of its proposed tax increment equivalent grant program, the Region is requesting the Province to provide a share of the 15 percent non-resident speculation tax revenue collected from York Region property transactions. A copy of the Region's report and draft Guideline is contained in Appendix 'D' to this report. Regional staff has been requested to consult with local municipal, agency, and development industry stakeholders and report back on a final version of the Guideline.

Comments on Draft Rental Housing Incentives Guideline

The draft Guideline is based on principles endorsed by Regional Council. To be eligible for rental housing financial incentives a development must be rental in tenure for a minimum of 20 years, have local municipal support, and be willing to share pro forma work.

Developments will be prioritized if they:

- are located in a Regional Centre or Corridor or Local Centre;
- are mid or high rise developments;
- receive support from senior levels of government; and
- achieve additional housing related goals (i.e. greater duration of rental tenure, duration and/or depth of affordability).

The draft Guideline incorporates a criteria that, on average, rents may not exceed 175 percent of average market rent of purpose-built market rental apartments by bedroom type. This rent threshold not only recognizes that the average market rent for York Region is too low given it is derived from an aging rental stock but also ensures developments eligible to receive incentives are non-luxury and affordable to the mid-range income households.

On this basis, the Region has determined that the maximum affordable rent for mid-range income households across York Region ranges from approximately \$2000 to \$3000 per month based on the standard that a maximum of 30 percent of income be spent on housing. As shown in the Region's figure below, 175 percent of average market rent

provides for affordable bachelor units for all mid-range income households and affordable 1 to 3 bedroom units for the fifth and sixth income decile of the Region's household income distribution.

Eligible rents and mid-range income affordability, 2017

	Bach	1-Bdrm	2-Bdrm	3+ Bdrm	Total
Average Market Rent of Private Purpose Built Apartments*	\$892	\$1,170	\$1,346	\$1,526	\$1,279
175% Average Market Rent	\$1,561	\$2,048	\$2,356	\$2,671	\$2,238
Maximum Affordable Rent for Mid-Range Households (4 th Decile)	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
Maximum Affordable Rent for Mid-Range Households (5 th Decile)	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
Maximum Affordable Rent for Mid-Range Households (6 th Decile)	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000

Note: Grey highlighted cells denote affordability by household income decile and bedroom type

*Source: CMHC Rental Market Report, Greater Toronto Area, 2017 Table 1.1.2, "Private Apartment Average Rents" (does not include secondary or government assisted/non-profit units)

In addition to the existing 36 month Regional development charges deferral, Regional Council has endorsed the following new Regional incentives for purpose-built market rental housing developments:

- a 48 month deferral for Regional development application fees, applicable from the date the building permit is issued; and
- a 5 year tax Increment equivalent grant for the Regional portion of property taxes.

A tax increment equivalent grant is an annual grant equal to all or a portion of the property tax increase following the completion of an eligible project that has resulted in an increase in the assessed value of the property. In order to access this grant for the Regional portion of property taxes, an eligible development would also require a financial incentive from Markham equivalent to the local municipal portion of the property taxes either through a City of Markham tax increment equivalent grant and/or another incentive such as a reduction in cash-in-lieu of parkland.

City staff are generally supportive of the Region's draft Rental Housing Guideline but would recommend that the Region consider extending the period of their existing development charge deferral to 60 months and their proposed tax increment equivalent grant to 10 years to increase the viability of these financial incentive for rental housing while not significantly increasing the financial impact on the Region or Markham.

Staff are also recommending that the Region's Rental Housing Guideline consider prioritizing mixed use developments, where a retail or office component combined with a purpose-built market rental housing could reduce the overall financial impact of providing transit, roads and other community infrastructure on the residential tax rate.

As noted below, City Planning and Finance staff will be assessing the potential impact of Markham providing financial incentives equivalent to those proposed by the Region and reporting to Council as part of the update to the City's Affordable and Rental Housing Strategy.

At this time, it is recommended that this report be forwarded to York Region in response to the request for comments on the draft Rental Housing Incentives Guideline for purpose built rental housing, and that Council express its support for the Guideline and request the Region to consider prioritizing mixed use developments, and extending the Regional development charge deferral period to 60 months, and the proposed tax increment equivalent grant program for the Regional portion of property taxes for up to 10 years, in support of future eligible affordable and rental housing projects in Markham.

Updating the City's Affordable and Rental Housing Strategy/Housing Needs Assessment
Council has requested staff to report back on an update to the City's Affordable and Rental Housing Strategy. The current Strategy and complementary Official Plan policy framework evolved out of an Affordable and Special Needs Study initiated by the City with SHS Consulting in 2009.

Concurrent with York Region's 10-Year Housing Plan update and municipal comprehensive review, the City is reviewing and updating its Affordable and Rental Housing Strategy and policy framework to respond to recent provincial and regional affordable and rental housing initiatives. The 10 year update of Markham's Strategy will consider options for inclusionary zoning and additional financial incentives in response to the above noted provincial and regional incentive programs. An update of the housing needs assessment required to inform the Strategy is underway.

City Planning and Finance staff are currently investigating options to refine Markham's existing financial incentives for affordable ownership housing and affordable rental housing (i.e. those incentives dealing with the lowest earning 40 percent of households in Markham) to make them more easily accessible to eligible proponents without putting additional unnecessary financial burden on the City.

At the same time, City staff are investigating options for additional financial incentives to increase market affordability of purpose-built rental units for mid-range income households to make them more accessible to eligible proponents and to specifically address unit types suitable for family households. These additional incentives include, but are not limited to, extending the deferral of Markham development application fees to 48 months after a building permit is issued, extending the deferral of Markham

development charges to 60 months and providing a tax increment equivalent grant and/or equivalent incentive for the Markham portion of property taxes for up to 10 years.

As part of the background work on the Strategy, City staff will be specifically working with SHS Consulting on the development of options for Council to consider for moving forward with inclusionary zoning that could potentially require large-scale development to include affordable and/or rental units.

It is recommended that the updated Affordable and Rental Housing Strategy for the City of Markham, include, among other things, options for inclusionary zoning and additional financial incentives in response to the Region's draft Rental Housing Incentives Guideline including a 60 month development charge deferral, a 48 month development application fee deferral, and an incentive equivalent to a 10 year tax increment equivalent grant on the Markham portion of the property, for eligible affordable and rental housing projects in Markham.

FINANCIAL CONSIDERATIONS:

Not applicable.

HUMAN RESOURCES CONSIDERATIONS:

Not applicable.

ALIGNMENT WITH STRATEGIC PRIORITIES:

The update of the City's Affordable and Rental Housing Strategy relates to the Growth Management strategic priority.

BUSINESS UNITS CONSULTED AND AFFECTED:

The recommendations of this report have been discussed with Staff from the Finance Department and their comments have been incorporated.

RECOMMENDED BY:



Arvin Prasad M.C.I.P., R.P.P
Commissioner of Development Services

ATTACHMENTS:

Appendix A - City of Markham Incentives for Affordable and Rental Housing
Appendix B - Federal National Housing Strategy and Seed Funding Programs
Appendix C - Ontario Regulation 232/18 for Inclusionary Zoning
Appendix D - York Region Draft Rental Incentives Guideline Staff Report