

OPPORTUNITY KNOCKS

TORONTO CITY COUNCIL'S CHANCE TO CREATE TENS OF THOUSANDS OF AFFORDABLE HOMES

Executive Summary
October 2021



LAND ACKNOWLEDGEMENT

We acknowledge that the land on which this work was carried out is the traditional and unceded territories of the Huron-Wendat, Anishinabek Nation, Haudenosaunee Confederacy, Mississaugas of the New Credit First Nation, and Métis Nation, and is home to Indigenous people of many nations. This territory was the subject of the Dish With One Spoon Wampum Belt Covenant, an agreement between the Iroquois Confederacy and the Ojibwe and allied nations to peaceably share and care for the resources around the Great Lakes. We hope to honour the spirit of the Dish With One Spoon agreement by working to build a nation-to-nation relationship with Indigenous communities in Toronto.

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Social Planning Toronto challenges inequity in our city — through knowledge generation, debate, civic engagement, advocacy, and collaboration — to spark social and policy change.

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REPORT AUTHORS

Beth Wilson
Jeremy Withers
Sean Meagher

Beth Wilson is the Senior Researcher and Policy Analyst with Social Planning Toronto.

Jeremy Withers is a Ph.D. candidate in the Department of Geography and Planning at the University of Toronto. He is also the Outreach Coordinator for the Affordable Housing Challenge Project, a University of Toronto, School of Cities initiative.

Sean Meagher is the Coordinator of ConveneToronto and Executive Director of the Change Lab.

CONTRIBUTOR

Jin Huh, Social Planning Toronto

EDITING, DESIGN, AND LAYOUT

Lisa Ferguson, Social Planning Toronto
Richard Ferreira, Visao Design

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EXECUTIVE SUMMARY

Inclusionary Zoning (IZ) presents an opportunity to have a greater impact on Toronto's long-standing housing crisis than we have had in decades. It has the potential to produce tens of thousands of affordable homes simply by requiring new residential developments include them. Under a strong IZ policy, most new condo and rental apartment towers would be required to include affordable housing as part of the new development.

IZ also has the potential to increase affordability in expensive neighbourhoods, reducing racial, spatial, and social inequality and exclusion. For communities and groups most impacted by the housing crisis, new affordable housing is desperately needed and long overdue.

Our analysis quantifies the potential of a strong, evidence-based IZ policy to create much-needed new affordable rental housing. It also calculates the much smaller number of affordable rental housing units that would likely be produced if the City of Toronto implements its current draft IZ policy. Finally, it assesses the lost opportunity caused by

WILL THE MAYOR AND COUNCIL adopt a strong, evidence-based IZ policy, or will they bend to the city's powerful development lobby?

provincial delays that denied IZ powers to municipalities for years and assesses the costs of further delays in implementing IZ.

Our study finds that the City's proposed IZ policy falls far short of its full potential to create new affordable rental housing. Even by the end of the decade, the City's proposed IZ requirements would likely produce around half the amount of affordable housing it could feasibly require.¹

Toronto City Council is now weeks away from voting on and adopting its first IZ bylaw. Will the Mayor and City Council make good on the City's affordable housing commitments by ensuring that this new tool is used to its full potential? Or will they go down the same road they did in the City's 2010–2020 housing plan², failing

1. IZ feasibility is based on the following criteria used in the City of Toronto's 3 commissioned feasibility studies: developers can still achieve a motivating profit margin of at least 15% and landowners can receive at least 10% above the value of their land based on current use.

2. In *Housing Opportunities Toronto*, the City's 2010–2020 housing plan, Toronto City Council set a goal of producing 10,000 affordable rental housing units over the decade. In the end, it completed 4,093 — less than half of this modest target. In addition, using a definition of affordability based on average market rents, much of the small amount of housing created was not affordable for many low-income residents. (Source: City of Toronto, Affordable Housing Office, 2019. *Housing Opportunities Toronto — Affordable Housing Office Q1 2019 Report*, New Affordable Homes Approved, Completed and Repaired. Toronto, Ontario)

to meet even half of their modest targets for new affordable housing? It all comes down to the decisions that the Mayor and Council make this November.

STUDY PURPOSE & APPROACH

In this research, we set out to assess the potential of IZ to create affordable rental housing in Toronto and whether the City of Toronto's draft IZ policy will achieve that potential.

Our analysis draws on research findings from the most recent IZ feasibility study commissioned by the City of Toronto and conducted by housing policy consultants N. Barry Lyons Consulting (NBLC) in 2021. NBLC produced three IZ feasibility studies between 2019 and 2021.

This work was undertaken in consultation with the City of Toronto's City Planning Division to inform the City's IZ policy. These studies tested the feasibility of requiring IZ in 11 different parts 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 housing).

OUR RESEARCH ADVANCES 4 QUESTIONS:

- 1** **HOW MANY** affordable rental housing units could have been created through IZ over the past decade in the City of Toronto if not for years of provincial delays?
- 2** **HOW MANY** affordable rental housing units could be included in new residential developments currently proposed and under review by the City Planning Division, if affordable housing requirements were applied which provided developers with a motivating profit margin of at least 15% and landowners with at least 10% above the current value of their land?
- 3** **HOW MUCH LESS** affordable rental housing would be included in new residential developments currently proposed and under review if the low affordable housing requirements in the City's draft IZ policy were applied?
- 4** **HOW MANY** new affordable rental housing units would be forfeited each year if there are further delays in implementing IZ?

Our analysis follows the convention established in the City's May 2019³, May 2020⁴, and May 2021⁵ IZ feasibility studies; set-aside rates are deemed to be feasible so long as developers can still achieve at least a 15% profit margin and landowners can still receive at least 10% above the value of their land based on its current use.⁶ We believe this test provides a realistic assessment of the potential of IZ to produce affordable housing, while still leaving developers and landowners with a modest, motivating return.

The City Planning Division provided residential development data for the period of January 1, 2011, to December 31, 2020, through a custom data request. The data were provided for different market areas.⁷ In our analysis, we calculate

the amount of affordable rental housing that could be produced in each area by applying (1) set-aside rates that the 2021 NBLC study found could be required while leaving developers with a 15% profit margin and landowners with 10% above the current value of their land⁸ and (2) the set-aside rates proposed in the City's draft IZ policy⁹.

Recognizing the dire housing crisis impacting tenants, we focus on rental housing. It is important to note that the final IZ policy will produce a mix of affordable rental and affordable ownership housing.¹⁰

3. <https://www.toronto.ca/wp-content/uploads/2019/05/90b6-Final-Draft-City-of-Toronto-IZ-Analysis-May-21-accessible.pdf>

4. <https://www.toronto.ca/wp-content/uploads/2021/10/95ca-CityPlanning-Proposed-IZ-Official-Plan-Amendment.pdf>; <https://www.toronto.ca/wp-content/uploads/2021/10/95ce-CityPlanning-Proposed-IZ-Zoning-By-law-Amendment.pdf>

5. See page 41-68: <https://www.toronto.ca/wp-content/uploads/2021/10/8e15-CityPlanning-IZ-Peer-ReviewFinal-Report.pdf>

6. 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>). We discuss the implications of this conservative check further in our Methods section below.

7. Altus Realnet and Canada Mortgage and Housing Corporation define 24 market areas in Toronto. These geographic areas are used to analyze real estate markets. To avoid data suppression issues, we requested data for the combined Etobicoke Central and Etobicoke South market areas.

8. <https://www.toronto.ca/wp-content/uploads/2021/10/8e15-CityPlanning-IZ-Peer-ReviewFinal-Report.pdf>

9. <https://www.toronto.ca/wp-content/uploads/2021/10/95ca-CityPlanning-Proposed-IZ-Official-Plan-Amendment.pdf>; <https://www.toronto.ca/wp-content/uploads/2021/10/95ce-CityPlanning-Proposed-IZ-Zoning-By-law-Amendment.pdf>

10. Under the *Ontario Planning Act*, developers have the power to determine housing tenure in the creation of affordable units through IZ. They may choose to build affordable rental or affordable ownership units. The City's draft IZ policy proposes slightly higher set-aside rates for the creation of affordable ownership than for affordable rental units. It is unclear whether the difference in proposed set-aside rates is sufficient to encourage the creation of affordable rental units.

In response to the advocacy efforts of residents and community groups, the City of Toronto is also proposing to change its definition of affordable rent.¹¹

The proposed definition will be based on a percentage of Toronto renter households' income and will offer deeper affordability than the previous definition, which was based on a percentage of Toronto market rents. Based on current renter household incomes in Toronto, the City's draft IZ policy would require affordable rental units to cost \$812 per month for a bachelor, \$1,090 for a 1-bedroom, \$1,661 for a 2-bedroom, and \$1,858 for a 3-bedroom.¹² Governments can also provide housing allowances to the tenants of these units to deepen affordability.

The objective of our analysis is to distinguish between the full potential of IZ to create new affordable rental housing in Toronto and the much lower amount of affordable rental housing that would likely be produced by the City's draft IZ policy. It is important to note that under the City's draft IZ policy, units in projects already proposed and under review by City Planning would be exempt from affordable housing requirements. Our study focuses

on these proposals because they offer the most up-to-date indication of where the city is growing and where the potential of IZ to produce affordable rental housing could be realized. This untapped potential appears to be growing fast, as the number of units proposed and under review has increased by a stunning 27% over the past year alone – 247,000 under review in December 2020¹³ vs. 194,000 under review as of December 2019¹⁴.

See the Appendix for a detailed description of the study method, maps of Toronto market areas, the City's proposed IZ areas, and a table of set-aside rates used in our analysis.

KEY FINDINGS

The City of Toronto's draft IZ policy fails to maximize the potential of this important new tool, despite the urgent need for affordable housing. The policy sets a low bar for developers, requiring far less affordable housing than could be feasibly required while leaving developers a motivating profit margin of at least 15% and landowners with at least 10% above the value of their land based on current use – IZ feasibility criteria used in the City's 3 commissioned studies.

11. <https://www.toronto.ca/wp-content/uploads/2021/10/95ca-CityPlanning-Proposed-IZ-Official-Plan-Amendment.pdf>; <https://www.toronto.ca/wp-content/uploads/2021/10/95ce-CityPlanning-Proposed-IZ-Zoning-By-law-Amendment.pdf>

12. <https://www.toronto.ca/wp-content/uploads/2021/10/95ca-CityPlanning-Proposed-IZ-Official-Plan-Amendment.pdf>; <https://www.toronto.ca/wp-content/uploads/2021/10/95ce-CityPlanning-Proposed-IZ-Zoning-By-law-Amendment.pdf>

13. See page 7: <https://www.toronto.ca/wp-content/uploads/2021/06/963e-Development-Pipeline-2021.pdf>

14. See page 6: <https://www.toronto.ca/wp-content/uploads/2020/10/8df1-Development-Pipeline-2020.pdf>

It also proposes a long phase-in period with modest annual increases to set-aside rates between 2025 and 2030. But even the full affordable housing requirements scheduled for 2030 fall far short of what’s possible.

Our analysis shows each year of delay will cost residents struggling with Toronto’s housing crisis more opportunities to access affordable homes.

THE COST OF LOWBALLING TORONTO’S IZ POLICY: BY THE NUMBERS

**+30,000
LOST**

OPPORTUNITY SQUANDERED Our research estimates that 30,862 affordable rental housing units could have been produced through IZ over the past decade (2011-2020) if not for provincial delays that denied IZ powers to municipalities for years after IZ legislation was first introduced at Queen’s Park. This represents **7.5 times** the amount of affordable rental units actually completed over that period.ⁱ

**+25,000
ACHIEVABLE**

OPPORTUNITY KNOCKS Our research shows that 25,352 affordable rental housing units could feasibly be included in new residential developments currently proposed and under review by the City Planning Division. In its *HousingTO 2020-2030 Action Plan*, Council has committed to producing 40,000 new affordable rental housing units over the decade. Applied to current development proposals, IZ could increase that number by **well over half** without costing taxpayers a dime.

**10,000 TO
18,000
IN JEOPARDY**

OPPORTUNITY IN JEOPARDY Our research shows that 18,176 fewer affordable rental housing units would be included in residential developments currently proposed and under review if the IZ rates the City is proposing (from September 18, 2022, to December 31, 2024) were applied.ⁱⁱ The City could feasibly produce **3.5 times** more affordable rental housing than the City’s draft policy proposes, while still providing developers a motivating profit margin of at least 15% and landowners with at least 10% above the current value of their land.

The City is proposing to slowly increase IZ requirements from 2025 to 2030. Our research also finds that if the City’s proposed “fully phased-in” 2030 IZ requirements were applied to development applications currently under review, 10,486 fewer affordable rental housing units would be produced than if feasible rates were applied. Even by the end of the decade, Toronto’s IZ proposal would be producing **less than 60%** of the amount of affordable rental housing that it could be.

**+3,000
AT RISK/YEAR**

OPPORTUNITY DELAYED Our research shows that 3,159 new affordable rental housing units would be forfeited **every year** that the implementation of an IZ policy is delayed.

i. https://www.toronto.ca/wp-content/uploads/2019/04/8dfa-access_AHO-Summary-for-HOT-TargetsCompletions-Q1-2019-Final.pdf

ii. It is important to note that the City is proposing that beginning September 2022 and until January 2025, 7%, 6% or 5% of new condos’ floor areas would be required to be set aside for affordable rental housing, depending on the area. Beginning in 2025, the rates would increase by 1.5%, 1% or 0.5% per year, depending on the area. However, even by the end of the decade, the rates proposed beginning 2030 (16%, 12%, 8%, depending on the area) fall far short of what the City found to be feasible at present.

RECOMMENDATIONS

For Toronto City Council and the Planning and Housing Committee:

- Adopt a strong IZ policy consistent with Toronto City Council's commitment to a human rights approach to housing, reflected in the *City's HousingTO 2020–2030 Action Plan* and its updated *Housing Charter*¹⁵;
- Maximize the potential of IZ to produce affordable housing by requiring the highest set-aside rates for affordable housing that are feasible while providing developers a profit margin of at least 15% and landowners with at least 10% above the current value of their land:
 - » In IZ Area 1:¹⁶ 30% of new condo developments set aside for affordable rental housing; 10% new purpose-built rental developments set aside for affordable rental housing
 - » In IZ Area 2: 20% of new condo developments set aside for affordable rental housing (except 10% in the Junction); 5% of new purpose-built rental developments set aside for affordable rental housing (except 0% in Toronto East)
 - » In IZ Area 3: 10% of new condo developments set aside for affordable rental housing (except 20% in North York Centre)
- Prioritize the production of affordable rental units through IZ by requiring significantly higher set-aside rates for affordable ownership units and closely monitoring whether these rates are high enough to ensure the production of affordable rental is being prioritized;
- Pass and implement the IZ policy without further delay in order to maximize the amount of affordable housing that can be produced;
- Provide the City Planning Division with sufficient funding, staffing, and resources to effectively implement and enforce the IZ policy, including the work required to define Protected Major Transit Station Areas (PMTSAs)¹⁷ as quickly as possible across the city;
- Evaluate and report annually, utilizing disaggregated race-based and other social data, on the outcomes of the IZ policy — including a breakdown of affordable housing produced by tenure, level of affordability, and geographic area, and a socio-demographic and income profile of residents who have accessed affordable housing through IZ to evaluate the program through an intersectional, gender-equity lens;

15. <https://www.toronto.ca/wp-content/uploads/2020/04/94f0-housing-to-2020-2030-action-plan-housing-secretariat.pdf>

16. See Appendix for map of IZ Areas.

17. Under provincial legislation, IZ is only permitted within Protected Major Transit Station Areas (PMTSAs). These are areas within 500 to 800 metres of a major transit station such as subway, GO, and future LRT stations. The City of Toronto's City Planning Division is currently defining these areas. Once approved by Council, PMTSAs will require Ministerial approval.

- Evaluate and report annually on area-specific changes to housing economics, including assessments of whether set-aside rates could be raised in each PMTSA — areas in which the Province currently permits municipalities to implement IZ;
- Engage residents accessing affordable housing through IZ and community partners in the evaluation process to identify opportunities to improve the accessibility and effectiveness of the IZ policy, reduce barriers to participation, and ensure an equitable and human rights-based approach to housing; and
- Encourage the Province to fast-track its approvals of PMTSAs to minimize any unnecessary delays in implementing the IZ bylaw.

The City of Toronto continues to enjoy an exceptionally strong residential development market, as it has for more than two decades. As of December 31, 2020, over 120,000 condo units were proposed in developments located near major transit stations, where IZ is permitted by the Province and areas of the city where IZ is recommended by the City of Toronto.¹⁸

Development should be part of the solution to the city's housing crisis, rather than a contributor to escalating living costs that push low- and moderate-income communities out of neighbourhoods. IZ presents an important opportunity to create a more livable and equitable city through residential development, where growth pays for growth.

This November, Toronto City Council needs to make good on its housing goals and commitment to the right to housing by adopting a strong IZ policy, informed by the evidence, that will maximize the potential of this new tool. Toronto residents on the receiving end of the city's housing crisis need the Mayor and City Council to act without further delay. Their wellbeing depends on it.

18. Data provided by the City of Toronto's City Planning Division in August 2021. Figure based on residential developments with 80 units or more located within 800 metres of a major transit station, where a development application had been submitted to the City of Toronto and was under review as of December 31, 2020. Under provincial legislation, IZ is only permitted within Protected Major Transit Station Areas (PMTSAs). These are areas between 500 and 800 metres of a major transit station such as subway, GO and future LRT stations. The City of Toronto's City Planning Division is currently defining these areas. Once approved by Council, PMTSAs will require Ministerial approval. In October 2021, the City of Toronto released an updated draft IZ policy which excludes developments with fewer than 100 residential units from IZ requirements. According to the City Planning Division: "City-wide, residential projects proposing 80-99 units make up 4.6% of residential projects and contain 1.2% of proposed residential units. Within 800m of transit stations, residential projects proposing 80-99 units make up 3.7% of residential projects and contain 0.8% of proposed residential units." As such, the inclusion of projects with 80-99 units has no substantive effect on the results of the analysis.



the change lab



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