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REPORT TITLE: **Administering Affordable Housing Units Secured by Local Municipalities Through Inclusionary Zoning and Other Mechanisms**

FROM: Sean Baird, Commissioner of Human Services

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## **RECOMMENDATION**

**That the Region of Peel assume an administrator role for a system to access affordable housing units secured by local municipalities, as outlined in the report from the Commissioner of Human Services, as listed on the May 12, 2022 Regional Council agenda titled “Administering Affordable Units Secured by Local Municipalities Through Inclusionary Zoning and Other mechanisms, be approved in principle;**

**And further, that up to \$350,000 of one-time funding be approved, funded from the Regional tax rate stabilization reserve R1250, to establish a temporary staff working group to undertake permanent program design and identify budget requirements;**

**And further, that the Region advocate to the Government of Ontario and the Government of Canada to offset the costs of administration;**

**And further, that a copy of this resolution be sent to the Minister of Municipal Affairs and Housing, the Minister of Housing and Diversity and Inclusion, the City of Mississauga, the City of Brampton, and the Town of Caledon.**

## **REPORT HIGHLIGHTS**

- There is limited access to affordable rental and traditional home ownership for low- and moderate-income households in Peel.
- Local municipalities will be able to secure affordable housing unit contributions via inclusionary zoning and other means through the development approvals process on an ongoing basis.
- There is a need for an administrator to manage access by eligible households, turnover and resales for the affordability period of affordable units secured by local municipalities.
- Options for administration of these units were identified and specific options have been recommended for further detailed consideration based on ability to preserve affordability and resale controls; need for capital funding; tenancy model; and complexities to manage.
- The Region is best positioned to administer affordable units secured by local municipalities for which developers typically have limited administrative capacity.
- This report seeks Council approval for the Region to assume an administrator role for affordable units secured by local municipalities.
- The proposed approach is supported by Regional Housing Services, Regional Planning and Growth Management, and encouraged by local municipal planning staff.
- This role is not mandated by the *Housing Services Act*, and further, no revenue stream has been identified at this time to offset costs.

## **Administering Affordable Housing Units Secured by Local Municipalities Through Inclusionary Zoning and Other Mechanisms**

- This report also seeks approval for up to \$350,000 of one-time funding, funded from the Regional tax rate stabilization reserve (R1250), to establish a temporary staff working group to design the administrative system and to identify on-going operational costs.
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### **DISCUSSION**

#### **1. Background**

The housing affordability crisis in Peel has limited housing options for low- and moderate-income households. Further data tables on affordability are provided in Appendix I.

Inclusionary zoning (IZ) is a proven tool for increasing the supply of market ownership and rental housing that is more affordable to moderate-income households, and, with appropriate supports, to low-income households. These policies have been utilized around the world since the early 1970s. In Ontario, IZ is a tool that local municipalities can use to require that a proportion of units within new residential developments in protected major transit station areas (PMTSA), or areas with a Minister-ordered community planning permit system, be provided at affordable rates. The proposed delineation of PMTSAs in Peel is identified in Appendix II. Provincial requirements to implement IZ in Peel have been met through collaboration between the Region and local municipalities. Regional staff estimate that when implemented, IZ could provide approximately 200 new affordable units annually for middle-income, and potentially, low-income households. In addition, local municipalities could secure affordable housing through other mechanisms – negotiated contributions and large sites policies as examples. Once affordable units have been secured, there is a need to regulate access to these units, and in many cases, to maintain long-term affordability by managing turnover through resales and tenancy changes.

Regional staff has identified that the Region, as the Service Manager for the affordable housing system, is best positioned to manage access and turnover for affordable units where the developer does not have administrative capacity. As compared to local municipalities, non-profits, and developers, the Region is better positioned to leverage expertise in managing housing systems, minimize resource use, and streamline processes to provide one point of access for eligible residents and workers.

This report seeks Council approval for the Region to assume an administrator role for affordable units secured by local municipalities. This report also seeks approval for up to \$350,000 of one-time funding, to establish a new temporary staff working group to design the administrative system and to identify on-going operational resourcing.

#### **2. Regulating access and turnover of affordable housing units secured by local municipalities**

To understand the complexities of regulating access to, and turnover of, affordable units secured by local municipalities, Regional staff, in collaboration with local municipal staff, consulted with housing administrators that utilize IZ in San Francisco, Washington, Whistler, Montreal, and Toronto. Select developers, non-profits, and advocates were also engaged. In addition, Regional staff retained Robins Appleby LLP to provide legal advice on IZ. This resulted in the identification of several potential administrative scenarios for regulating affordable housing unit contributions, including those secured through IZ.

## **Administering Affordable Housing Units Secured by Local Municipalities Through Inclusionary Zoning and Other Mechanisms**

After assessing the benefits and risks of all scenarios, regional and local municipal staff recommend that three (3) types of units be prioritized for administration, as follows:

1. Rental units located within purpose-built rental developments where tenant-occupants lease directly from the landlord;
2. Rental units in condominium developments where a third-party leases units via commercial head lease (or similar), manages tenancies, and assumes responsibility for tenant-occupant associated risks;
3. Ownership condominium units in condominium developments where owner-occupants purchase resale price-controlled (e.g., via covenant) units directly from the developer.

Appendix III outlines these arrangements and highlights important considerations. Regional staff has identified five key elements for regulating access to, and managing turnover of, these types of affordable housing units secured through the development control process:

- Local municipalities securing affordable housing commitments from developers through a legal agreement prior to building permit issuance;
  - Establishing a process for matching occupants to units;
  - Ensure affordability of the unit over time, including managing unit turnover through resale price and rental rate controls;
  - Measuring and monitoring, and;
  - Five-year update of the market feasibility analysis for IZ.
- 3. Comparing the merits of local municipal, non-profit, development industry, and regional-led administration of affordable housing units secured by local municipalities.**

While local municipalities are solely positioned to secure affordable housing commitments through the development control process, there remains a need for an administrator to regulate access to, and manage turnover of, affordable housing units contributed by developers that do not have capacity to assume long-term administration. Regional staff, with support from local municipal staff, assessed the merits of local municipal, development industry, non-profit, and regional-led administration.

### **a) Local Municipalities**

Local municipalities must secure affordable units and could assume the responsibility to administer them given the variety of skills across existing internal resources (e.g., planning, legal, finance, and communications).

However, local municipalities have limited housing operational experience and no existing infrastructure (e.g., housing waitlist) to build upon. Furthermore, as IZ becomes implemented across all three local municipalities over time, and other affordable housing contributions are secured, three different administrative local offices will likely emerge

## **Administering Affordable Housing Units Secured by Local Municipalities Through Inclusionary Zoning and Other Mechanisms**

with multiple application systems. This is not an efficient use of tax dollars with duplication of staff positions and infrastructure.

### **b) Development Industry and Non-Profits**

Regional staff have determined that it is not prevailing practice across IZ jurisdictions for the development industry to both build and solely administer IZ units due to limited experience with operating housing programs. Moreover, while some non-profits have experience with housing operations, given the complexity (*i.e.*, multiple tenure types, affordability durations, scattered units and sites) and scale of administration, there may not be enough capacity for any one non-profit to administer a system.

While direct costs to taxpayers could be minimized through relying on developers and/or non-profits to administer units, it may result in a patchwork system resulting in inequitable access to units, *e.g.* a household may need to apply to multiple locations and waitlists.

Given these considerations, it is advised that an administration model where the development industry and/or non-profits exclusively manage access to, and turnover of, units is not preferred. However, they must be engaged extensively in the development of any administrative system in order to maximize flexibility for the provision of affordable units.

### **c) Region of Peel**

As Service Manager, the Region of Peel has existing housing system operational experience that can be leveraged for regulating access to and turnover of affordable housing units secured by local municipalities where the developer is unable to do so.

In particular, the Region has extensive experience in managing waitlists, supporting households to get and keep housing through direct placement and financial supports, administering rental housing both in purpose-built rental and condominium buildings, as well as administering ownership assistance programs. The Region can build on this existing competency and create a one-window portal to minimize inefficient use of resources and prevent a patchwork system.

Finally, it must be noted that a system in which the Region has a lead administrative role has been flagged as a strong preference by local municipal staff.

As a result, Regional staff has concluded that the Region, as Service Manager for affordable housing, is better suited than others to serve as program administrator of affordable housing units for which the developer does not have administrative capacity. This will maximize efficiency, universality of access, duration of affordability, and flexibility for developers and non-profits that have the capacity to administer their projects.

The analysis presented above is summarized, at-a-glance, in Table 1 below.

## Administering Affordable Housing Units Secured by Local Municipalities Through Inclusionary Zoning and Other Mechanisms

**Table 1: Administrator Merits Summary**

Administrator	Diversity of internal expertise required for Program administration	Housing Operations Experience	Limits Cost to Taxpayers	One-Window for Applicants	Maintain Long-term Relationship to Units / Residents
Local Municipalities	✓	X	X	X	✓
Developers and/or Non-Profits	?	?	✓	X	?
Region of Peel	✓	✓	✓	✓	✓

### 4. Next Steps and Resourcing Requirements

Regional staff understand that the City of Mississauga has indicated to their Council that they plan to implement their IZ program as early as Q3 2022. The City of Brampton is expected to follow around Q2 of 2023, and the Town of Caledon's timeline is undetermined at this time.

Subject to Council approval, in principle, of the Region assuming an administration role for affordable housing units secured by local municipalities, there is significant work to be undertaken urgently to detail a fulsome administrative system. Given the scope and time-sensitive nature of the work, net new staff resources will be required.

Staff are therefore recommending the creation of a temporary staff working group with local and regional representation to define start-up, operating, and resourcing requirements. Staff will make recommendations to Council on program design (e.g., eligibility rules, resale regulations, long-term affordability mechanisms), staffing models (e.g., new permanent staffing needs), technology needs (e.g., application system software) and budgets (e.g., staffing costs, cost-sharing). Key stakeholders such as developers, non-profits, housing advocates, lending institutions, Municipal Property Assessment Corporation (MPAC), and Canada Mortgage Housing Corporation (CMHC) will be engaged in this work.

Additional resources are required to complete this work. It is estimated that approximately five full time equivalent staff over 6 months at a cost of up to \$350,000 will be required. Their work would conclude with a report to Regional Council detailing the administrative system and on-going operational resourcing requests for approval.

The recommended approach is endorsed by Regional Housing Services, Regional Planning and Growth Management, and Local Municipal Partners.

## **Administering Affordable Housing Units Secured by Local Municipalities Through Inclusionary Zoning and Other Mechanisms**

### **RISK CONSIDERATIONS**

Securing affordable housing units through the development approvals process by using IZ and other approaches by local municipalities can contribute to addressing the shortage of affordable housing in Peel. However, without a one-window administrative system, moderate- and low-income residents and workers in Peel, non-profits, and the development industry will all have to navigate a patchwork system regulating access and turnover of units. This will result in eligible households not having one convenient point of contact, and unnecessary resources being expended on administration instead of assistance. Further, it may create challenges for developers and non-profits who may have limited resources and experience and cannot establish their own administration.

While the Region is best placed to assume such an administrative role, it is important to underscore that there will be both new start-up, and new ongoing, costs to the Region. This role is not mandated by the *Housing Services Act*, and further, no revenue stream has been identified at this time to offset costs. These costs may also grow as the supply of affordable units secured by local municipalities increases. However, these added costs should be weighed against the alternative, where the Region purchase an additional 200 units annually above and beyond the housing master plan. To achieve similar outcomes, at current median condominium prices of \$705,000, the Region would have to annually finance an additional \$141,000,000 in acquisition: a number that would grow with market prices.

It is also important to consider that there may be future demands upon the Region for financial assistance to reduce operating and capital costs associated with these units. For instance, as operating costs of rental units increase over time, the Region may find itself being urged to provide rent or operating subsidies to cover the difference between operating expenses and affordable rents charged for moderate-income households. In addition, given the prominent role of 'offsets' (e.g., publicly-funded financial incentives to defray developer costs) in other jurisdictions, demands upon the Region to provide incentives in order to produce greater numbers of more affordable units may emerge. As noted in the NBLC report, consideration for offsets in weaker/moderate market areas may be required for IZ.

It is also worth noting that as municipalities across Ontario with primary major transit station areas enable inclusionary zoning, parallel administration systems and rules may emerge that create inefficient use of resources through duplication. The Region should take a leadership role in advocating to the province and federal government to support and absorb the costs of ensuring a one-window system not only in Peel, but across Ontario.

### **FINANCIAL IMPLICATIONS**

The administration of affordable units secured by local municipalities will have financial impacts for the Region and local municipalities. Financial impacts will largely stem from start-up costs and on-going operation with new staffing requirements that may grow with supply. Further costs may occur as a result of technology and other needs.

Staff recommends that up to \$350,000 of one-time funding be approved to establish a temporary staff working group to design the administrative system and to identify on-going operational costs, funded from the Regional tax rate stabilization reserve (R1250).

## **Administering Affordable Housing Units Secured by Local Municipalities Through Inclusionary Zoning and Other Mechanisms**

These staff will determine permanent administration requirements including staffing and technology needs.

Staff will report back to council on future financial requirements.

### **CONCLUSION**

Housing prices in Peel continue to rise and outpace inflation and household incomes. Local municipalities securing affordable housing units through the development control process by using IZ and other means, is one approach that can help increase affordable housing supply and support complete communities. With appropriate resourcing, the Region is well positioned to be the administrator of affordable units secured by the local municipalities for which developers do not have administrative capacity.

### **APPENDICES**

Appendix I – Affordability Tables

Appendix II – Draft PMTSA Delineation

Appendix III – Tenure Delivery and Duration Considerations

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