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REPORT TITLE: **Peel Affordable Rental Incentives Program Update and 2022 Results**

FROM: Sean Baird, Commissioner of Human Services

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## RECOMMENDATION

1. That in accordance with section 110 of the *Municipal Act, 2001* and the Region of Peel's *Municipal Housing Facility By-law 49-2020*, a site-specific by-law be enacted, as described in the report of the Commissioner of Human Services, listed on the June 22, 2023 Regional Council agenda titled "Peel Affordable Rental Incentives Program Update and 2022 Results", to permit the Region of Peel to enter into a municipal housing project facilities agreement with Canahahns Company Limited, and/or any entity related to or affiliated with the foregoing, for the provision of municipal housing project facilities at the property located at 2340 Confederation Parkway, Mississauga, for use as affordable housing; and
2. That the Regional Clerk be directed to provide written notice of the site-specific by-law to the Minister of Finance in accordance with section 110(5) of the *Municipal Act, 2001*, as amended; and
3. That a new reserve R1159 "Affordable Housing Incentives" be established to track and facilitate grants provided through the Council endorsed Peel Affordable Rental Incentives Program and other affordable housing incentives programs and initiatives that may be authorized by Council; and
4. That, the funding of the Affordable Housing Incentives reserve be provided through the redeployment of the \$7.5 million in annual grant funding for affordable housing incentives approved through the 2023 Housing Budget to an annual contribution to the reserve.

## REPORT HIGHLIGHTS

- The Peel Affordable Rental Incentives Program ("PARIP") offers incentives to private and non-profit developers to provide affordable rental housing through an annual competitive Call for Applications.
- For the 2022 Call for Applications, staff recommend that one project receive \$1.5 million in total funding to secure 7 affordable rental housing units for 26 years.
- In accordance with the Region of Peel's *Municipal Housing Facility By-law 49-2020*, staff is seeking Regional Council approval to enact a site-specific by-law to permit the Region to enter into a municipal housing project facilities agreement under subsection 110(1) of the *Municipal Act, 2001*, as amended for the provision of municipal housing project facilities for use as affordable housing, and for the provision of PARIP funding.

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- Staff is monitoring ongoing policy, legislative and housing market conditions that are impacting the PARIP. Several changes are proposed for the 2023 round of the program to mitigate risk and to ensure that Regional housing priorities continue to be met.
- To respond to uncertainty in the housing market, staff recommend that going forward, the previously approved \$7.5 million annually in the Housing Support Operating Budget be redeployed from a Grants account to a Contribution to Reserve account with no net impact. The funds will be held in the reserve until disbursements are required based on project approvals.
- \$10 million will be available for the 2023 Call for Applications, comprised of the approved annual \$7.5 million and \$2.5 million unallocated from the 2021 and 2022 rounds.
- The 2023 Call for Applications is scheduled to be held between June and September 2023. Staff will report on the results by early 2024.

## DISCUSSION

### 1. Background

The Peel Affordable Rental Incentives Program (“PARIP”) was initiated in 2021 as a Pilot Program in support of the Peel Housing and Homelessness Plan, 2018-2028 – Pillar 3: Maximize planning tools and incentives. The PARIP incents private and non-profit housing developers to provide affordable rental housing for low- and middle-income households through capital grant funding. On July 7, 2022, Regional Council endorsed the PARIP as a permanent program. An annual budget of \$7.5 million for the PARIP grants was approved through the 2023 Budget.

The purpose of this report is to provide an update on the 2021 approved projects and to recommend funding for the 2022 round of the PARIP. This report also explores the current challenges of rental housing development, implications of Bill 23, the *More Homes Built Faster Act, 2022* (“Bill 23”) on the PARIP as well as other program changes for 2023.

### 2. 2021 Approved Projects

Three projects were approved for funding during the 2021 Pilot Program through Regional Council Resolution 2021-1133 (see Table 1). The first affordable units approved under the program are anticipated to be occupied in late 2023/early 2024.

**Table 1: Status of 2021 approved PARIP projects**

Proponent	Details	Status
Daniels Corporation/ Choice Properties	\$1.2 million in funding for 12 affordable units	Contribution agreement executed. Project under construction; first occupancy expected in late 2023/early 2024.
United Property Resource Corporation (Kindred Works)	\$4.68 million total funding for 78 affordable units	Finalizing terms of contribution agreement to be signed when land ownership is finalized.
Greenwin Corp/Sweeny Holdings Inc.	\$1.6 million in funding for 40 affordable units (declined funding)	Proponent withdrew their request for funding. \$1.6 million allocation will be returned to the PARIP budget.

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### 3. Results of the 2022 PARIP Call for Applications

#### a) Call for Applications

The 2022 PARIP Call for Applications ran from September 13 to November 4, 2022. The program was advertised widely to the private and non-profit development industry, and an information session was held on September 7, 2022. \$2.5 million in funding was available for this round of the PARIP (approved through Resolution 2022-614, prior to approval of annual budget beginning in 2023).

The Region received two applications through the 2022 PARIP Call for Applications. Both applicants met the requirements and scored strongly, however, one applicant advised that they were not able to proceed due to market uncertainty and was removed from the review.

#### b) Recommended Funding

Through this report, staff seek Regional Council approval to enact a site-specific by-law to permit the Region to enter into a municipal housing project facilities agreement as required under subsection 110(1) of the *Municipal Act, 2001*. This will enable the Region to provide funding in the amount of \$1.5 million to Canahahns Company Limited for the provision of 7 affordable housing units as municipal housing project facilities for low- and middle-income households with an affordability period of 26 years (as described in Table 2). The remaining \$1 million budget allocated for the 2022 Call for Applications will stay in the PARIP budget and will be available for the 2023 round.

The Canahahns project is in a strategic growth area and provides environmental and energy efficiency features above building code minimum requirements. The affordable units provided will be primarily 2- and 3-bedroom units with larger floor area designed for families.

**Table 2: Summary of recommended project**

Applicant organization/project location	Number of affordable units	Average depth of affordability (% of median market rent (MMR))	Duration of affordability	Recommended funding/per unit
Canahahns Company Limited 2340 Confederation Parkway, Mississauga	7	126% of MMR (from \$1,225 for a 1-bedroom, to \$2,295 for a 3-bedroom)	26 years	\$1.5 million/ \$214,286 per unit

Depending on further Provincial guidance expected through forthcoming regulations, the recommended project may be eligible for partial development charge relief as introduced through Bill 23, based on its status as a purpose-built rental development.

Table 3 provides an overview of funding sources, funding committed and advanced to date.

**Table 3: PARIP budget overview**

Budget amount (\$ millions)	Account type	Year	Process	Amount allocated (\$ millions)	Amount advanced (\$ millions)	Remaining unspent /unallocated (\$ millions)
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\$7.50 (Pilot)	Capital	2019/21	Budget	\$4.8	\$1.08	\$1.62
\$2.50	Capital	2022	Resolution 2022-614	\$1.50 <sup>1</sup>	-	\$1.00
Total (Pilot and 2022 Call for Applications, \$ millions)				\$6.30	\$1.08	\$2.62
\$7.50	Operating <sup>2</sup>	2023	Budget	-	-	\$7.50
Total available for 2023 (\$ millions)						\$10.12

<sup>1</sup> Pending approval of agreement through this report

<sup>2</sup> Recommendation to restate as contribution to reserve through this report

### 4. 2023 PARIP Considerations

Staff has evaluated the 2022 PARIP Call for Application to respond to changes in housing market conditions, and to identify strengths, opportunities, and areas of improvement.

#### a) State of the Rental Market

Recent analysis highlights the increasing barriers facing rental housing development, including rising interest rates, construction costs, and labour challenges.

In February 2023, the Building Industry and Land Development Association, Federation of Rental-housing Providers of Ontario, Finnegan Marshall and Urbanation prepared the “Purpose-Built Rental Housing in the Greater Toronto Area” white paper. It compared the financial pro forma for a prototypical building as condominium ownership versus rental housing tenure in Mississauga. While the condominium yielded a 12.5 per cent profit, the rental development would not break even for 11+ years. This analysis demonstrates the financial risks involved in rental housing development as compared to ownership housing.

The 2023 report “Perspective on the Rental Housing Roundtable” prepared for the City of Toronto explores the historical and ongoing market conditions that challenge rental housing development, including the need for significant up-front capital and recognition that rental housing viability requires a long-term commitment from developers and lenders. These barriers are even more significant for non-profits and co-ops, which are often in addition to challenges with acquiring land and development knowledge and capacity.

This analysis is mirrored in the Region’s own work to understand the “gap” between market and affordable rents, and the impacts of providing affordable rental rates on the viability of purpose-built rental development. Research consistently shows a need for predictable, coordinated government funding to increase supply of affordable rental housing.

#### b) Bill 23 Incentives

The timing of the 2022 PARIP Call for Applications coincides with the introduction and passing of Bill 23, which has the potential to support the Region’s efforts through the PARIP to encourage new rental and affordable rental housing development. Several new as-of-right Bill 23 incentives will be “stacked” on PARIP incentives:

- Partial development charge relief for rental housing development (in effect)
- Relief of development charges, parkland fees, and community benefits charges for non-profit housing providers that meet the definition under the *DC Act* (in effect)

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- Relief of development charges, parkland fees, and community benefits charges for affordable units (not in effect; pending further information (bulletin), transition provisions and established legal/administrative processes)

As more details become available, staff is committed to revising the PARIP as required to ensure the Region's interests are protected and funding is strategically allocated.

### c) Local Municipal Incentives

The Region has been collaborating with the local municipalities since the early development of the Pilot Program to seek opportunities to “stack” incentives. This work is ongoing, and currently considers the following local municipal initiatives:

- City of Brampton: Concierge Program, Housing Catalyst Capital Project (Phase One complete in 2022), City-wide Housing Incentive Program (under development)
- City of Mississauga: City-wide Community Improvement Plan for Housing (under development)

Staff will continue to work with the local municipalities to ensure alignment of housing incentives, including coordinating processes and administration where possible.

### d) Program Updates for 2023 Call for Applications

Staff is implementing a series of changes in 2023 to ensure the PARIP remains responsive to Peel housing needs and priorities (Table 4).

**Table 4: Key PARIP changes in 2023**

	<b>Change</b>	<b>Rationale</b>
1	Lowering the required depth of affordability for affordable units to 100% of median market rent	Aligns with Peel's middle-income renter households, a significant area of housing need
2	Adding flexibility to the affordable unit mix requirements	Will permit applications from a wider range of housing types, including seniors rental housing providers, workforce housing, and continue to support rental housing for families
3	Adding clarity for applicants and Peel with respect to justifying funding requests	Adds transparency for applicants in determining incentive amount, and for Peel staff in reviewing, including consideration of Bill 23 and other stacked incentives
4	Increasing the length of the Call for Applications to 3 months	Responds to stakeholder feedback; prospective applicants have time to develop applications; increased opportunity for correspondence with Peel staff to answer questions

The changes also reflect the challenges that the PARIP has faced to date, notably the general uncertainty brought by the market risks explored above, and that two developers were unable to proceed with accepting the Region's funding (one after award in 2021, the other prior to recommendation in 2022). While these were recognized risks when the program was launched, staff is committed to continuous improvement to mitigate risk resulting from industry uncertainty. This will be achieved through increased flexibility and transparency of program criteria, lengthened application timelines and ongoing consultation with the development industry.

The next PARIP Call for Applications will be held from June to September 2023. \$10 million in funding is available for this round, which will make available the approved annual \$7.5 million in funding as well as \$2.5 million that remains unallocated from the

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2021 and 2022 rounds. Staff expect to report back to Council by early 2024 with the results.

### **e) Budget Structure**

Bill 23 and recent market conditions highlight the potential need to retain excess operating funding for PARIP in years where market uncertainty impacts demand for program funding. To ensure that the PARIP remains flexible in an unpredictable housing market, staff is recommending that the grant budget approved in 2023 be restated to a contribution to reserve and the funds transferred to a reserve account on an ongoing annual basis. Funds will be held in the reserve until disbursements are required based on project approvals and not be limited to fiscal constraints within a calendar year.

## **RISK CONSIDERATIONS**

There is minimal anticipated risk to the completion of the project recommended for funding through this report as it is already under construction, however, it is possible that the proponent may decide not to proceed with accepting the Region's funding to provide affordable units. This risk has been mitigated in the design of the program, in which the funding is not advanced until concrete development and agreement milestones have been reached (e.g., receiving full building permit and registering security for funding on title).

More generally, the success of the PARIP is dependent on the participation of private and non-profit developers. Urbanation reports nearly 5,800 purpose-built rental units approved or in the application process in Peel, however, it is possible that given current market conditions, some developments planned as rental may be developed as condominium ownership instead. The market uncertainty introduced in recent months may have an impact on the number of new rental projects in the Region, and therefore the number of potential applicants to the PARIP.

Through the PARIP continuous improvement approach, staff will continue to monitor the PARIP and Peel's rental market, and report on the efficacy and proposed direction of the program. As the PARIP is still in its first few years, this ongoing evaluation will be critical to its success.

## **BILL 112 RISKS AND IMPLICATIONS**

Bill 112, *Hazel McCallion Act (Peel Dissolution)*, 2023 will impact all programs including the PARIP. Most notably, accountability for the ongoing administration of the PARIP (over the life of the contribution agreement(s), minimum 25 years), will need to be considered in the transformation of Peel Region. Staff is working with the best available information in proceeding with the 2023 Call for Applications, in line with the principles established by Regional Council on June 8, 2023, and will continue to monitor and respond to direction from Council and the Transition Board, once established.

## **FINANCIAL IMPLICATIONS**

The \$1.5 million in funding to Canahahns Company Limited for the provision of 7 affordable housing units as municipal housing project facilities for low- and middle-income households with an affordability period of 26 years, as recommended in the report, will be provided from Capital Project 217750 with no net impact to the budget.

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To ensure that the PARIP remains flexible in an unpredictable housing market, staff is recommending that the previously approved \$7.5 million in the Housing Support Operating Budget be permanently redeployed from account 23989 Grants to account 51159 Contribution to Affordable Housing Incentives Reserve, beginning in 2023. A new reserve R1159 “Affordable Housing Incentives” will be established, and the funds will be held in the reserve until disbursements are required based on project approvals. There is no net impact to these recommendations and the proposed change will enable greater flexibility, with respect to timing, to allocate incentives.

### CONCLUSION

Market uncertainty has exacerbated challenges related to the development of rental housing, and government support is an important factor in the creation of new affordable rental supply. The PARIP is a flexible tool designed to leverage industry capacity for affordable rental development through the provision of capital grants and has had successes in its first two years. Staff continues to improve upon the program and mitigate risks introduced by market and legislative changes through its continuous improvement efforts. The most recent program updates have been implemented with the 2023 Call for Applications to encourage a wider range of applicants and meet additional need.

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Sean Baird, Commissioner of Human Services

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