



CITY OF HAMILTON
PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
Planning Division

TO:	Chair and Members Planning Committee
COMMITTEE DATE:	February 14, 2023
SUBJECT/REPORT NO:	Inclusionary Zoning - Housing Needs Assessment (PED23044(a)) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Tiffany Singh (905) 546-2424 Ext. 1221
SUBMITTED BY:	Steve Robichaud Director, Planning and Chief Planner Planning and Economic Development Department
SIGNATURE:	

RECOMMENDATION

- (a) That the Draft Housing Needs Assessment Report, prepared by SHS Consulting, dated December 2022, attached as Appendix "A" to Report PED23044(a), be received;
- (b) That the Housing Needs Assessment addendum letter, prepared by SHS Consulting, dated January 2023, attached as Appendix "B" to Report PED23044(a), be received;
- (c) That staff be directed and authorized to undertake public and stakeholder consultation on the Housing Needs Assessment report and addendum letter.

EXECUTIVE SUMMARY

The lack of sufficient affordable housing is an issue in Hamilton, across the Province, and more broadly across Canada. Many factors have led to Ontario's current housing affordability crisis. Some factors relate to prolonged low interest rates, accumulated home equity creating buying power, speculative demand, labour shortages, cost of materials, and inadequate supply to meet the growing population demands combined with the low rate of growth of personal and household incomes. The current housing

environment has created many challenges and affordable housing is now critically needed more than ever.

The City of Hamilton is exploring the feasibility of adopting Inclusionary Zoning (IZ) to help increase the supply of affordable housing. Increasing the supply of safe, suitable, and affordable housing for all Hamiltonians is the primary objective of the City's Housing and Homelessness Action Plan (2020). Affordable housing generally means that the cost of rental or ownership housing is low enough relative to household income to allow a person to meet other basic needs. Affordable housing is a broad term that encompasses a spectrum that extends from "deeply affordable" units for households with low incomes, to attainable housing closer to the average market rent or price for middle income households. To achieve the primary objective of the City's Housing and Homelessness Action Plan, the City must explore all opportunities to generate affordable rental and ownership options to meet the needs of households as the city continues to grow. Inclusionary Zoning is one tool that can be used to meet the City's objective.

The *Planning Act* and Ontario Regulation 232/18 defines Inclusionary Zoning as a land-use planning tool that a local municipality may use to require affordable housing units (IZ units) to be included in private market-rate residential developments of 10 units or more within a designated Protected Major Transit Station Area (PMTSA). Prior to adopting Inclusionary Zoning policies, the Province requires a comprehensive study (municipal assessment report) to be undertaken to justify the need for affordable housing and to ensure that the inclusion of affordable housing is economically feasible for market-rate housing development that would be subject to an IZ regime.

The City is undertaking the required municipal assessment report in accordance with Ontario Regulation 232/18 and has approached the requirement through two components, a Housing Needs Assessment and a Market Feasibility Study. The draft Housing Needs Assessment is attached as Appendix "A" to Report PED23044(a). The City retained SHS Consulting to complete the Assessment, which includes an analysis of existing and projected housing supply and affordability, demographic trends, and resulting housing needs across the City. The second component, the Market Feasibility Study, will be brought forward through a future report to Planning Committee at such time as a detailed peer review of the study is completed, in accordance with Provincial requirements. A report containing the Market Feasibility Study, a peer review report, proposed draft policy framework, and consultation program will be brought forward in March, 2023 or April, 2023.

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The Housing Needs Assessment Draft Report identifies three key housing gaps that summarize the current and emerging need for housing that is adequate, suitable, and affordable in Hamilton:

1. There is a need to continue to diversify the housing stock, particularly to include more smaller dwelling types, as well as family sized dwellings, to allow seniors (aged 65+ years) to age in appropriate homes and to encourage couples with children to settle in Hamilton;
2. There is a need to increase the stock of purpose-built rental housing in the primary rental market in Hamilton; and,
3. There is a need to develop ownership options that are affordable to households with moderate incomes and that are appropriate for larger households.

The Housing Needs Assessment Draft Report also presents an analysis of and recommendations for definitions for “affordable ownership” based on an income-approach, and “affordable rental” using a market-based approach consistent with the definition of “affordable housing” in the Provincial Policy Statement and the City’s Official Plans. The Housing Needs Assessment Draft Report recommends the following income thresholds for defining an affordable housing unit based on data from 2022:

- Affordable Ownership (income-based approach) should be priced at a maximum of \$505,455 for the lowest 60% of the income distribution; and,
- Affordable Rental (market-based 100% AMR approach) should be priced at the following maximums for the lowest 60% of the income distribution based on unit type:
 - \$920 – Bachelor Units;
 - \$1,142 – One-Bedroom Units;
 - \$1,335 – Two-Bedroom Units;
 - \$1,450 – Three-Bedrooms or More; and,
 - \$1,242 – All Unit Types.

An addendum to the Housing Needs Assessment Draft Report, attached as Appendix “B” to Report PED23044(a) was also completed by SHS Consulting to assess the impact of potential future regulations proposed by the Province. The addendum is based on changes communicated in a posting on the Environmental Registry of Ontario (ERO) on (October 25, 2022 – December 9, 2022). As of the time of the writing of this report, these changes have not been implemented by the Province. The addendum indicates that if using the proposed provincial calculation for affordable housing, set at 80% of the average resale purchase price of ownership units or 80% of the average

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market rent (AMR) for rental units, the following maximum prices or rent would constitute an affordable housing unit:

- Affordable Ownership should be priced at a maximum of \$739,242 for the lowest 60% of the income distribution; and,
- Affordable Rental should be priced at the following maximums for the lowest 60% of the income distribution based on unit type:
 - \$736 – Bachelor Units;
 - \$914 – One-Bedroom Units;
 - \$1,068 – Two-Bedroom Units;
 - \$1,160 – Three-Bedrooms or More; and,
 - \$994 – All Unit Types.

In summary, the proposed affordable housing definition from the province would result in a much higher affordable ownership threshold and conversely lower affordable rental prices.

Alternatives for Consideration – See Page 12

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: N/A

Staffing: N/A

Legal: N/A

HISTORICAL BACKGROUND

Inclusionary Zoning is a land use planning tool that has the potential to deliver affordable units within market-rate developments over the long term. The tool was first introduced in the 1970's and was used throughout the United States to secure affordable housing units. The application of this policy tool is much newer to Canada. As part of the *Promoting Affordable Housing Act, 2016*, the Province of Ontario introduced a framework to allow municipalities to include Inclusionary Zoning into Official Plan policies and Zoning By-law regulations. In April 2018, the Province released further details and limitations on the use of this policy tool through Ontario Regulation 232/18.

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On October 25, 2022, the province released proposed changes to the regulations for Inclusionary Zoning which were posted on the ERO. Although the consultation postings closed on December 9, 2022, amendments to the regulations have not yet been made.

Inclusionary Zoning requires new market rate residential development to include a certain percentage of new affordable housing units. In Ontario, Inclusionary Zoning can only be implemented within a Protected Major Transit Station Area (PMTSA), which is a subtype of Major Transit Station Area (MTSA), where inclusionary zoning may be applied. A MTSA includes the area around any existing or planned higher order transit station or stop or the area around a major bus depot in an urban core. Major transit station areas generally are defined as the area within an approximate 500 to 800 metre radius of a transit station, representing about a 10-minute walk. Municipalities may determine which MTSA it identifies as PMTSAs pursuant to the *Planning Act*, but PMTSAs require Ministry of Municipal Affairs and Housing approval.

A key benefit of Inclusionary Zoning is that it can facilitate the construction of affordable units in locations that are most ideal for affordable housing (e.g. areas in close proximity to services, amenities and higher order transit), but that are often too expensive for affordable housing providers to build without reliance on government subsidies.

Inclusionary Zoning programs can reduce revenues for market-rate housing developers as a result of lower rents and sale prices for the affordable units. As such, Ontario Regulation 232/18 requires the City to undertake a municipal assessment report before implementing any inclusionary zoning policies, to ensure that market-rate residential development continues to be financially viable for private housing developers.

The municipal assessment report includes two key components. The first component is an analysis of existing and projected housing supply and affordability, demographic trends, and resulting housing needs across the City. The City has retained SHS Consulting to complete this analysis through a Housing Needs Assessment towards fulfilling the necessary IZ legislative requirements.

The second component of the municipal assessment report is an analysis of the market and financial viability of development and redevelopment from the enactment of an inclusionary zoning policy framework. The City has retained urbanMetrics inc. to complete a Market Feasibility Study. Through the approval of Report PED2304, on February 8, 2023, Council authorized N. Barry Lyons Consulting Limited to conduct a written peer review as legislatively required.

Key Inclusionary Zoning policy considerations that affect the financial viability of development include:

- Set-aside rate (percentage of units required to be affordable);

- Degree of affordability (targeted income decile);
- Duration of affordability (length of time the unit is kept at an affordable price); and,
- Tenure of affordable units (ownership vs. rental).

Where the economics of site development cannot support inclusionary zoning on its own, programs can include measures to offset the financial impact so that the development projects become financially viable (e.g. without requiring reduced parking standards or waiving parkland dedication requirements). They can also be used to deepen the degree of affordability to serve a broader range of household incomes. Measures could include the phasing in of the program, increased height or density permissions, or financial incentives.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The Provincial Planning Policy framework is established through the *Planning Act* (Section 3), the Provincial Policy Statement (PPS) and other Provincial policy plans. It provides municipal governments with the direction and authority to guide development and land use planning through official plans, secondary plans and zoning by-laws. The *Planning Act* requires that all municipal land use decisions affecting planning matters be consistent with policy statements and plans issued by the Province. Bill 7, *Promoting Affordable Housing Act*, 2016 introduced Section 35.2 to the *Planning Act* containing permission for municipalities to implement inclusionary zoning provisions. Ontario Regulations 232/18 came into effect on April 11, 2018, setting the framework for municipalities looking to explore implementing an inclusionary zoning by-law.

The analysis regarding feasibility of an Inclusionary Zoning policy is the most critical component of the regulation requirements. There are several key Inclusionary Zoning policy development elements that must be explored further in order to shape the most appropriate Inclusionary Zoning program for the current and future needs of Hamiltonians. The following is a summary of some of those parameters and considerations:

- **Set-Aside Rate**
 - What is an appropriate set-aside rate that will maintain the viability of market-rate development?
 - Should there be different rates for different station areas?
 - Should there be a different rate for different market tenures?
- **Degree of Affordability**
 - Should Inclusionary Zoning be affordable for low-income households or moderate-income households?

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- Duration of Affordability
 - What is an appropriate duration of affordability and how should it be maintained over time?
 - How is the unit managed if the tenant or owner chooses to move/sell or becomes deceased?
- Tenure of Affordable Units
 - What tenures would best serve the City's needs?
 - Should there be specific tenure requirements in certain station areas?
- Size and Location of Affordable Units
 - What size of units would best serve the City's needs?
 - Should the required IZ units be located within a specific area of a multi-residential building?
- Offsite Units
 - Should offsite units (required by *Planning Act* to be within same station area) be permitted, and under what conditions?
 - How does the City ensure the timely construction of offsite units?
- Opting Out Clause
 - Are there situations or sites that should be excluded from an Inclusionary Zoning policy because they are more suitable for the achievement of other municipal objectives?
- Phase-in and Transition
 - How should program elements be phased-in to minimize market disruption (e.g. starting with a very low set-aside rate and rising to a predetermined maximum)?
 - How should the program address stronger markets vs weaker less viable markets?
- Program Administration and Implementation
 - For rental units, who would manage the affordable units, fill vacancies with appropriate tenants, and ensure they continue to remain affordable?
 - For ownership units, how would those units be allocated?
 - What are the staff resource implications to the City under various implementation models?
- Program Monitoring, Reporting and Updating
 - How often should Inclusionary Zoning policies and by-law be updated?

- What additional resources will the City need to allocate to monitoring and updating the policy (reporting every two years and updating every five years)?

RELEVANT CONSULTATION

Staff within the Planning Division, Economic Development Division, Corporate Real Estate Office, Housing Services, Financial Services, and Legal Services were consulted in the internal review of the Housing Needs Assessment Draft Report.

Further consultation will be held with the development industry and the public to solicit feedback on the report. The following methods of engagement will be utilized immediately after receipt of Report PED23044(a):

- The Housing Needs Assessment Draft Report and addendum letter will be posted publicly for commenting through the City's online engagement platform – Engage HQ (<https://engage.hamilton.ca/>); and,
- The Housing Needs Assessment and addendum letter information will be presented to the Development Industry Liaison Group (DILG) at an upcoming meeting in March 2023.

Future Consultation

Once the Market Feasibility Study and peer review have been completed, additional details of a broader public and stakeholder engagement program will be presented to Planning Committee for consideration. Consultation on all study components is anticipated to be conducted during the months of April and May 2023.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

The Housing Needs Assessment Draft Report completed by SHS Consulting (Appendix "A" attached to Report PED23044(a)) and the Addendum Letter (Appendix "B" attached to Report PED23044(a)) had the following key findings:

Defining Affordable for Hamilton

The Housing Needs Assessment Draft Report presents an analysis of the various definitions of affordable housing that are currently being used in different contexts in Hamilton. These definitions provided the foundation for a recommended definition for affordable ownership based on an income-approach, and a recommended definition for affordable rental using a market-based approach.

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The Addendum to the Housing Needs Assessment Draft Report, assessed the impact of potential future regulations proposed by the Province. The Addendum is based on proposed changes communicated in a posting on the Environmental Registry of Ontario (ERO) on (October 25, 2022 – December 9, 2022).

The proposed changes are draft, and as of the time of the writing of this report, have not been implemented yet by the Province. The following summarizes SHS Consulting's recommended affordable housing definitions approach calculating the threshold for the lowest 60% of the income distribution in Hamilton, versus the potential future regulation proposed by the Province using 2022 data:

	<i>SHS Recommendation</i>	<i>Draft Provincial Regulation</i>
Affordable Ownership	<i>Income-Based Approach</i>	<i>Proposed Market-Based 80% of the average purchase price</i>
	\$505,455	\$739,242
Affordable Rental	<i>Market-Based Approach (100% AMR)</i>	<i>Proposed Market-Based Approach (80% AMR)</i>
Bachelor Units	\$920	\$736
1 - Bedroom	\$1,142	\$914
2 - Bedroom	\$1,335	\$1,068
3 - Bedroom +	\$1,450	\$1,160
All Unit Types	\$1,242	\$994

Key Housing Gaps

The Housing Needs Assessment analysis identified three key housing gaps that summarize current and emerging needs for housing in Hamilton.

1. There is a need to continue to diversify the housing stock, particularly to include more smaller dwelling types, as well as family sized dwellings, to allow seniors (aged 65+ years) to age in appropriate homes and to encourage couples with children to settle in Hamilton.

The majority of dwellings in Hamilton were single-detached dwellings in 2021 (56.2%). However, the demographics of households in Hamilton are changing and their needs might not be met by single-detached dwellings in the future.

Smaller households with one or two persons are the predominant household size (59.9%) in Hamilton in 2021. In addition, the population is aging. From 2016 to 2021, households with primary maintainers (the person or one of the people in the household responsible for major household payments such as the rent or mortgage) aged 45 to 64 years in Hamilton decreased (-1.9%), indicating these

households are likely having challenges to find affordable and suitable housing in Hamilton and are moving to different municipalities in Ontario. In contrast, the number of households led by seniors (aged 65+ years) was the fastest growing age group over that same time period (11.1%). Single-detached dwellings are not always the most suitable dwelling type for seniors and older adults to age in place. In addition, these dwelling types are also the most expensive dwellings and are only affordable to households in the 9th income decile (average income of \$222,207) or higher.

When looking at housing starts and completions, the data show the housing stock is changing and more diverse dwelling types are being built or proposed. It is important to continue to support these trends through policy incentives such as inclusionary zoning and ensure the housing stock will also meet the needs of residents in Hamilton in the future. Although the structural types seem to be diversifying in Hamilton, the majority of the newly constructed and proposed dwellings remain in the homeownership market. There is therefore a need to continue to diversify the housing stock with smaller sized rental dwellings and affordable ownership options in Hamilton.

2. There is a need to increase the stock of purpose-built rental housing in the primary rental market in Hamilton.

Average household incomes in Hamilton were lower compared to Ontario as a whole. From 2020 to 2022, the average household income in Hamilton grew by approximately 11.3%. In contrast, the average price of a home grew by 19.7% over that time period indicating homeownership has become rapidly unaffordable to a significant proportion of households.

The previous gap showed that in 2021 the majority of newly completed dwellings were ownership dwellings (69.9%) and very few were rental housing in the primary market (30.1%). This could explain the higher proportions of renter households who are facing housing affordability issues or who are in core housing need in Hamilton and demonstrates a strong need for more rental housing options that are affordable to households with low and moderate incomes. This is also supported by the large number of households on the centralized wait list for community housing, which indicates the existing stock of affordable and subsidized rental housing in Hamilton is not sufficient to meet the need in the community.

From 2016 to 2021, the supply of units in the primary rental market increased by 5.5% while the number of renters increased at a significantly faster pace (11.7%). The number of renters also increased at a faster pace than households overall (11.7% versus 5.3%). This data demonstrates a need to increase the supply of

purpose-built rental units. While home ownership may be ideal for some households, rental housing provides more flexibility, requires less maintenance, and is generally more affordable for households with low and moderate incomes. Rental housing may be the better option for young adults just starting their careers, people living alone or with roommates, and seniors who wish to downsize. It is particularly important to encourage the development of primary rental units as these are much more stable and generally more affordable compared to rental units in the secondary rental market through policies such as inclusionary zoning. Furthermore, adding to the supply in the primary rental market through an inclusionary zoning policy may encourage some households to move to newer rental units which would then free up some of the more affordable units that currently exist.

3. There is a need to develop ownership options that are affordable to households with moderate incomes and that are appropriate for larger households.

In 2022, the average condominium price would not be affordable to the majority of households with moderate incomes. While smaller condominium dwellings might be appropriate for some households, couples with children might require larger dwellings. From 2016 to 2021, however, couples with children decreased over that period. These households could be migrating to other municipalities for reasons such as a lack of housing options, to seek employment, or to attain a different lifestyle than what is offered in Hamilton. There is potentially a lack of housing that meets the desires and needs of this group of households in Hamilton currently.

As such, it would be important to work with the development industry and other partners through an inclusionary zoning policy to focus efforts on encouraging the development of ownership options that are affordable to larger households, including families with children or families planning to have children. While the data suggest smaller households are still the dominant household type, larger households are growing at a faster rate in Hamilton.

The Housing Needs Assessment Draft Report does not specifically examine the merits of utilizing Inclusionary Zoning as a land use policy tool to increase housing affordability, instead it confirms the need for more deeply affordable rental housing, and more moderately affordable rental and ownership housing of all unit sizes. The Draft Report confirms a need for exploring the use of policy tools such as Inclusionary Zoning to help increase the supply of affordable housing units to meet the current and future needs of Hamiltonians.

Inclusionary Zoning is a promising tool that leverages private sector development to help increase the amount of affordable housing near transit, but it is unlikely to yield

enough units to address all of the City's current and future affordable housing needs. Trade-offs or incentives may be required in the Inclusionary Zoning program to increase effectiveness, and the tool will likely not create affordable housing that is suitable for all household types and income ranges. Additional tools will be required to achieve an adequate supply and range of needed affordable housing. The Draft Report recommends the City continue to work towards completing the ongoing Housing Sustainability and Investment Road Map (HSIR) to developing a more robust and up-to-date housing strategy to meet the diverse needs of households into the future.

ALTERNATIVES FOR CONSIDERATION

Council could direct staff not to post the Housing Needs Assessment Draft Report on Engage Hamilton or meet with DILG until both the Market Feasibility Study is complete and available for broad public consultation together with a draft inclusionary zoning policy framework. This alternative is not recommended because there may be valuable insight from the community to help inform the gaps identified and the recommendations that may influence the development the draft policies.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement and Participation

Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community

Economic Prosperity and Growth

Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

Healthy and Safe Communities

Hamilton is a safe and supportive City where people are active, healthy, and have a high quality of life.

Built Environment and Infrastructure

Hamilton is supported by state-of-the-art infrastructure, transportation options, buildings and public spaces that create a dynamic City.

Our People and Performance

Hamiltonians have a high level of trust and confidence in their City government.

APPENDICES AND SCHEDULES ATTACHED

Appendix "A" to Report PED23044(a) – Housing Needs Assessment Draft Report, by SHS Consulting

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Appendix "B" to Report PED23044(a) – Housing Needs Assessment Draft Report –
Addendum Letter – Potential IZ Regulation
Changes and Impacts, by SHS Consulting

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