The City of Hamilton

Peer Review – Hamilton Inclusionary Zoning Market Feasibility Study

March 31, 2023

nblc
N. Barry Lyon Consultants Ltd.

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1.0 Introduction & Background

N. Barry Lyon Consultants Limited (NBLC) has been retained as by the City of Hamilton to prepare a Statutory Peer Review of the draft Hamilton Inclusionary Zoning Market Feasibility Study that has been prepared by Urban Metrics Incorporated (UM) dated February 6, 2023 (referred to as the UM report, or the Market Feasibility Study Report).

NBLC's scope included the following core activities:

- A review of the Market Feasibility Study Report to determine whether the approach and methodology of the financial impact analysis are appropriate for considering residential development feasibility, assessing impacts, and informing the City of Hamilton's inclusionary zoning policy framework.
- A review of key assumptions and sensitivity considerations to consider their reasonableness and whether any additional limitations or considerations should be included in the feasibility analysis.
- A review of a sample pro forma analyses prepared by UM.
- A review of the UM report's recommendations to consider their validity from a land economics perspective, and whether the statutory requirements in Ontario Regulation 232/18 have been met.
- This review focuses on paragraph 2.1.6 of O. Reg 232/18 which requires an "analysis of potential impacts on the housing market and on the financial viability of development or redevelopment in the municipality from inclusionary zoning by-laws, taking into account:
    - i. value of land,
    - ii. cost of construction,
    - iii. market price,
    - iv. market rent, and
    - v. housing demand and supply."

The Regulations also require a written opinion on the impact analysis described above that is prepared by a "person independent of the municipality and who, in the opinion of the council of the municipality, is qualified to review the analysis." To address this, the City of Hamilton has retained NBLC to undertake this peer review and to provide a written opinion of the UM report.

Depending on how an Inclusionary Zoning policy (IZ) is applied, the impact generally results in loss of revenue, therefore meaning a pro rata increase in the costs of development. Since the developer will seek to preserve their profit in a development, any additional costs or loss of revenue is typically recovered by a reduction in the purchase price of land. When the impact of IZ policy (or any increase in cost or decline in revenue) is so great that the land value of new residential development falls below that of its current use, the incentive to redevelop a site for housing is diminished. Developing a policy that allows for the developer to deliver new housing stock without suppressing the land market too much is the key to developing an effective policy. Balancing the impact of an IZ policy with offsetting

measures (e.g., density increases, infrastructure investments such as transit, incentives, etc.) are also common features of IZ policy in many jurisdictions as approaches that can mitigate market impacts.

In developing an IZ policy, the supporting research must first paint an accurate view of the marketplace. In the City of Hamilton, the market for high density residential housing varies greatly between neighbourhoods depending on a wide variety of factors which influence the nature of development. With this level of understanding, proforma models can evaluate the impact of IZ policies from the perspective of its impact on land values. The challenge of any IZ analysis is properly capturing and assessing the market and financial nuance, in different planning and market contexts across Protected Major Station Areas (PMTSA), to ensure that it will not discourage the production of housing.

Overall, the methodological choices and major assumptions shaping the findings within UM report appear to be reasonable. The methodology used is well explained. Further, the report's finding that a 5% rate of inclusion (the maximum that would be permitted within the context of recently proposed Ontario Bill 23 changes[1]) is viable within the context of new condominium apartment projects within west-end and centrally located PMTSA's is in line with our expectations and experience from a development feasibility perspective. We have not identified any major deficiencies in the work prepared by UM.

This peer review provides recommendations for the City and UM to consider as it relates to the confirmation or refinement to some assumptions, and the potential expansion or refinements to the Market Feasibility Study Report's recommendations to support the City's development of an ultimate policy approach.

1.1 Approach and Limitations of This Review

In preparing this review, the NBLC was not provided with a "live" spreadsheet which would allow us to fully analyse the mathematics and formulas used in the financial model. We understand and acknowledge that these spreadsheets are commercially confidential. We have therefore reviewed a sample of one static pro forma feasibility analysis and the accompanying set of assumptions used throughout the work.

We have also engaged in ongoing and active discussions with municipal staff and UM to clarify our understanding of the analysis and key data inputs, as needed. There were also e-mail exchanges and

[1] The More Homes Built Faster Act, 2022 (Bill 23) proposed regulatory changes to how Inclusionary Zoning is implemented, with a 5% cap on affordable housing requirements, a maximum 25-year affordability period, and affordable housing defined as being priced at no greater than 80% of the average resale purchase price or rent. These changes are expected to be implemented but are not yet in force.

additional information was provided to us throughout the course of this correspondence. We would like to thank the UM team for their cooperation during our peer review process.

There are a number of exclusions and/or limitations to this peer review, including the following:

- We have not prepared a detailed, line-by-line audit of the financial pro forma analyses produced by UM and all corresponding spreadsheets, cell references, etcetera. Instead, and respecting the commercial confidentiality of these elements of the study, we have undertaken a high-level review of sample pro forma analyses provided by UM in an unlinked Excel format. The model is structured to recalculate based on a series of selections within a linked assumptions sheet, and the impact analysis and related sensitivities follow an identical analytical structure and format. It is therefore our assumption that this sample static model is representative of the fulsome analysis prepared by UM.
- NBLC has not validated all calculations in the UM analysis. Mechanics related to municipal fees and charges are all assumed to have been vetted by the City and adequate for the purposes of this peer review.
- We have not evaluated the chosen development prototypes or test sites from a planning, massing, or general suitability perspective as it relates to the assumed scale and yield of new development. We understand that City planning staff reviewed the UM work from this perspective and assume that the tested development concepts are appropriate and representative of typical or anticipated outcomes from a planning and built form perspective.

2.0 Market Feasibility Study Report Review

2.1 Structure and Methodology

In completing a feasibility analysis of this nature, it can be challenging to capture the range of nuance that exists and affects the viability of residential development. Variability surrounding market demand, built form and planning considerations, development tenure and the motivations of individual developers/ investors will collectively shape the viability of a project. In our view, the UM report adequately considers these aspects. The following provides additional commentary relating to the methodological choices and structure of the analysis prepared in support of the Market Feasibility Study Report:

- The analysis considers a wide variety of submarket contexts across the planned transit corridor. The consultant developed ten prototypical development concepts and consulted with municipal staff in their development to ground truth the concepts within the context of current and emerging planning policy.
- The consultant utilizes varying market inputs to capture nuance between achievable sale prices and rents across submarkets. Further, the scale of the chosen prototype developments also varies to capture a wide range of contexts.
- The analysis considers the perspectives of both condominium and purpose-built rental developers. In our experience, this is best practice given that there are significant differences in the economics of these projects.
- The selected methodology for financial analysis is a discounted cash flow (DCF) to estimate land value, with and without the application of an IZ policy. These land value results are then compared to the estimated value of an existing land use. IZ policy scenarios are determined to be viable where the land value supported via the DCF model exceeds the projected value of the existing use.
- A DCF is one of several potential approaches that can be used in analyses of this nature to estimate the value of a potential development parcel, profitability, and other aspects of a project's performance. A DCF approach is typically used in site specific analyses where detailed development plans and project-specific details (e.g., the nuance of financing and timing of various revenue and expense inflows/ outflows) can be projected. In contrast, a Residual Land Value (RLV) approach is commonly used earlier on in development feasibility stages to incorporate a more standardized set assumptions relating to revenue inflows and cost outflows.
- While NBLC has often applied a RLV model in policy analyses of this nature, UM's application of a DCF method is a valid approach and will arrive at similar findings and conclusions because future costs and revenues are discounted to present value and treated like they would be in an RLV approach. Further, the structure of the UM model allows for sufficient market and built form nuance to be captured. The drawback of the approach is that it requires a greater number of detailed assumptions related to the distribution of revenue and costs over time. In UM's model, these are distributed on a quarterly basis. However, at the policy analysis level, these details

cannot be known and would naturally vary from site to site. To standardize the approach and allow for comparison between scenarios, UM has held many of these assumptions constant across scenarios, in-effect making the structure more similar to an RLV approach.

Overall, it is our view that the structure of the model is valid and appropriate for considering the relative viability impacts of a potential IZ policy. The use of land value as a measure of risk and viability is a reasonable and appropriate methodological choice. This approach has been utilized in other IZ feasibility assessment reports in Ontario and elsewhere. Further, our high-level review of arithmetic within the sample of pro forma work provided indicates that the analysis is free of material errors.

2.2 Validity of Model Inputs & Assumptions

The UM report makes sound methodological choices which acknowledge the importance of market dynamics in the development of an IZ policy. While it is impossible for this type of policy work to be precise, given the nature of prototypical pro forma testing within a varied real estate market context, it is NBLC's opinion that the majority of data sources, assumptions and inputs within the financial analysis are generally appropriate and representative of overarching market conditions and best practice within the industry. Within this context and following our discussions with UM, we offer the following notes for additional consideration in a few instances.

2.2.1 Approach to Establishing Underlying or Existing Land Value

To establish the existing land value of prototype sites, the analysis applies an assumed 30% gross-up factor which is applied to a specific property's assessed value. The report does not specifically identify the sites selected for testing, but staff at the city and with UM did indicate that they are representative of underutilised commercial land uses which are commonly seeing reinvestment and intensification for high density residential purposes. In discussions with UM, we understand that this gross up factor was based on an assumed rate of annual appreciation applied from the time of assessment (in 2016/ 2017), however no additional market analysis was undertaken to compare the selected gross-up assumption to actual transaction activity or commercial property valuations.

This measure of underlying land value is significant to the analysis because it is the basis upon which DCF proforma results are compared. This comparison is used to identify whether an IZ policy scenario is viable. However, if this underlying land value measure is too low, test results could produce a false-positive.

It is possible that this adjustment to assessed land value may in fact represent an appropriate high-level valuation of land value for these existing commercial uses. However, to enhance the strength of this assumption and to confirm the appropriate rate of adjustment we would recommend that supplementary market analysis be considered to 'ground truth' this methodological choice. Other approaches that could be considered would be to conduct an income capitalization approach, as well as to survey for a sample of recent and relevant sale transactions of similar properties in the market. With these data points, the defensibility of the 30% gross up assumption could be confirmed or adjusted. Of note, we expect that based on the results demonstrated in the analysis (e.g., viable rates

of inclusion at 20% in some instances) that the approach is unlikely to be overstating underlying commercial land values.

2.2.2 Market Absorption and Project Phasing

There is significant variation in building scale across the selected development prototypes. This is beneficial in work of this nature to capture a reasonable degree of variance in market outcomes. While the DCF approach does capture some variance in construction timeliness that shift with building scale, it is notable that the modeling does not modulate the absorption pace for condominium apartment sales before construction commences and these sales are assumed to occur as part of the planning and design stage of the project. Moreover, the scale of some selected prototypes would suggest multiple building phases, however this does not appear to have been incorporated within the modeling.

In all instances it has been assumed that the necessary pre-construction sales threshold (UM identifies this as 80% of units) has been satisfied within eight quarters and is simultaneous with the design and planning approval process. While it is relatively common for some projects to begin pre-selling units before final approvals are in place, this is an aggressive strategy and cannot generally occur until a developer has reasonable certainty with respect to planning and development yield outcomes. In practice, the pace of sales absorption would also vary across submarket locations according to market strength and the nature of purchasers being attracted to the location. Developers look to compress this pre-sale period as much as possible, but it is common for weaker markets to have slower sales absorption paces than in high demand contexts.

In large scale projects it is also common for developers to implement a phasing strategy to mitigate risk associated with market absorption. This is particularly common in weaker market where the pre-construction absorption pace of a single tower could take an extended period time. We note that there are several high yield development prototypes in the testing matrix, and several are located in eastern submarkets where market demand for new high density apartment development is currently weak (e.g., 1,218 units downtown, 803 units at Nash, and 679 units at Confederation). It is not clear whether these projects are intended to represent multiple towers, however we interpret this to be likely given that the prototype building heights are modest in all cases. It would be our recommendation that multi-phase projects either be pro-rated to a single tower, or, that a more nuanced approach to phasing be introduced in the analysis to reflect this.

Further, our review of the pro forma indicates that once the pre-sale threshold is achieved in condominium scenarios, no other sales are projected to occur during the construction period. Remaining unsold units are projected in all cases to be absorbed following construction completion (within three quarters). While there are some instances where developers will withhold a certain number of high valued units (e.g., penthouses), this type of strategy is typically reserved to for luxury projects and may not be appropriate in Hamilton's market context.

In rental scenarios, the model assumes that all rental projects would have a gradual lease up phase where all projects would reach stabilization within 12 months of construction completion. Based on

our experience we would also expect that this pace of leasing would vary by market strength and building scale.

While we would recommend that additional market consideration be given to these absorption assumptions, we also note that these adjustments may be minor in some cases and amount to adjustments to project discounting. Of note, the chosen discount rates used within the model are believed to be appropriate, if not conservative (8.95% pre-construction, and 6.95% during construction). Given this, absorption rate adjustments in isolation may not have a material impact on IZ viability within the proposed Bill 23 framework (i.e., a maximum 5% set aside rate).

2.2.3 Construction Timelines

Further to earlier commentary related to sales and absorption timelines. The assumptions used to distribute costs across the DCF model assume that within the first eight quarters that planning fees, development charges and other professional fees are spent. Construction timelines after this point vary between the prototypes and appear to have a direct correlation with building height, but not overall development yield.

While this approach would generally be appropriate if considering a single building in per site in isolation, some of the selected test sites are of a scale that we interpret to represent multiple building phases. However, it is our current interpretation that the modeling assumes each prototype development would be constructed in a single phase.

The following table demonstrates the assumed construction pace relative to the overall unit yield and gross floor area of each prototype. In our view, the construction timelines assumed in the work would be aggressive if dealing with a single building phase (our research suggests that 30-storey buildings in the GTA typically take about 40 months to be constructed). When considered relative to the total yield of each site, it is our view that the construction timeline assumptions warrant reconsideration, or, that the pro forma work should be isolated to a single phase. We recommend that together with considerations relating to market absorption timelines, adjustments to construction timelines and prototype phasing be considered.

Review of Construction Timeline Assumptions											
Prototype Site		No. Res Units	No. Parking Stalls	Res. GFA (sf)	Comm GFA (sf)	Total GFA (sf)	Height in Storeys	Total Assumed Construction Timeline in Assessment Report		**Units Constructed Per Year**	**GFA per Year**
								Quarters	Years		
1	McMaster	198	160	138,000	14,000	152,000	4	6	1.5	**132**	**101,000**
2	Longwood	231	189	161,000	42,000	203,000	4	6	1.5	**154**	**135,000**
3	Dundurn	85	63	57,000	2,000	59,000	7	6	1.5	**57**	**39,000**
4	West Harbour	147	74	98,000	7,000	105,000	7	6	1.5	**98**	**70,000**
5	Queen	571	337	382,000	7,000	389,000	30	11	2.75	**208**	**141,000**
6	James/Downtown	1,218	666	814,000	20,000	834,000	30	11	2.75	**443**	**303,000**
7	Scott Park	762	646	550,000	27,000	577,000	7	6	1.5	**508**	**385,000**
8	Kenilworth	181	146	131,000	8,000	139,000	7	6	1.5	**121**	**93,000**
9	Nash	803	681	580,000	26,000	606,000	13	8	2	**402**	**303,000**
10	Confederation	679	574	490,000	6,000	496,000	12	8	2	**340**	**248,000**

2.2.4 Suite Mix

The modeling supporting the Market Feasibility Study Report uses a consistent suite mix across all ten prototypes. Similar to the above commentary relating to absorption pace, it would be our expectation that suite mix assumptions vary according to the demand profile of varying market locations. It is also common for purpose-built rental projects to adopt different suite mix strategies versus condominium apartment developments within the same market area.

For example, a high-level review of actively marketing developments in Hamilton indicates the assumed allocation of studio units at 20% of the mix appears to be high relative to the positioning strategies within recently launched actively marketing projects in central areas of the City. It is recommended that some additional consideration be given to refining suite mix assumptions to reflect market dynamics and variability across submarkets. These adjustments may have a corresponding impact to project revenue given that the index prices (the price or rent per square foot) for each unit type does vary in the model. Further, any resulting unit count and parking yield adjustments would also have flowthrough impacts.

2.2.5 Hard Construction Costs

The pro forma analysis references Altus Group's annual index of construction cost data to inform hard cost assumptions within the analysis. The Altus Cost Guide presents costs within a range of variance for both above and below grade components of new construction. It is our view that the Altus guide is appropriate as a data source in analyses. However, the report's discussion of 'Benchmark Results' results uses 2022 reporting which is outdated, particularly within the current high inflationary period.

Appropriately, the UM report does acknowledge this and includes a sensitivity analysis which considers the impact to policy viability where costs are inflated by 5%, generally the rate of cost inflation that is captured within the 2023 Altus Cost Guide. We would recommend that the project team consider repositioning this this sensitivity analysis in the analysis so that these become the 'Benchmark Results.' This would ensure that the analysis remains conservative and reflective of the broader economic circumstances.

2.2.6 Soft Construction Costs

We understand that adjustments to municipal development charges and cash in lieu of parkland rates pursuant to Bill 23 have been considered throughout the Market Feasibility Study Report. In our review of the treatment of these items it does appear as though a discounting of development charges for new purpose-built rental development has been incorporated, as has the removal of the housing services portion of the rate, as well as a waiver of these charges for affordable units themselves.

However, our review indicates that the treatment of cash-in-lieu of parkland charges should be revisited and adjusted where warranted. In this regard we note the following:

- The City's current parkland dedication by-law (By-law 22-218) implemented the alternative rate permitted under section 42 of the Planning Act prior to Bill 23 (a value equivalent to 1 hectare per 500 units) with fixed per-unit caps for cash-in-lieu of parkland dedication in certain growth

areas which have now been impacted by Bill 23. The capped rates for Multiple Units are laid out in subsections 5(4) and 5(5) of the by-law and range between $5,000 per unit in the Downtown CIPA, up to $13,069 in the communities of Ancaster, Flamborough, Dundas, and Westdale (notwithstanding some adjustments in the downtown where buildings exceed height limits and the parkland rates can become higher).

- Bill 23 implemented changes to Section 42 of the Planning Act. Notably, the maximum alternative rate for cash-in-lieu of parkland was halved to a value equivalent to 1 hectare per 1,000 residential units. Moreover, the Act further implements a cap on these charges within 42(3.3) where it requires that a "by-law that provides for the alternative requirement authorized by subsection (3) shall not require a conveyance or payment in lieu that is greater than,
  - (a) in the case of land proposed for development or redevelopment that is five hectares or less in area, 10 per cent of the land or the value of the land, as the case may be; and
  - (b) in the case of land proposed for development or redevelopment that is greater than five hectares in area, 15 per cent of the land or the value of the land, as the case may be."
- The financial modeling in support of the Market Feasibility Study Report uses cash-in-lieu of parkland rates that are 50% of the per unit caps within Hamilton By-law 22-218. However, the additional 10% of land value cap does not appear to have been incorporated (no prototype sites exceed five hectares). As such, our review suggests that there are instances where the selected per unit cap likely exceeds 10% of residual land value, and there are others where the cap within 22-218 could have been maintained or adjusted by less than 50%.

2.2.7 Definitions of Affordability

The Market Feasibility Study Report relies on information provided through a Housing Needs Assessment conducted by SHS Consulting. Through this work, the UM analysis utilizes an affordable rental threshold at 80% of Average Market Rent (AMR), which is appropriate within the context of proposed Bill 23 changes and utilises CMHC data which is appropriate as an annual benchmark for these purposes.

For affordable ownership pricing thresholds, the SHS work does not provide a granular analysis of resale pricing across housing typologies or unit types. Rather, the average price across all resale homes is provided and as UM notes, this threshold exceeds the typical market price of most new condominium apartment units in Hamilton (the 80% of resale homes in Hamilton was reported as being $739,242). Because of this, the Market Feasibility Study Report endeavors to introduce more granularity by equating this resale price benchmark to that of an average-sized home (about 1,500 square feet) and then apportions the SHS pricing benchmark on a per-square foot basis within the proformas.

While this methodology generally reasonable within the limitations facing the UM team, it is our expectation that the resultant pricing thresholds will differ from the average resale pricing for condominium apartments in Hamilton. Moreover, it is possible that the Province will look to establish a common methodology or publish regular bulletins to standardize this. Differentiations in these

methodologies will have an impact on the findings of the Market Feasibility Study Report. A preferred approach to establishing affordable ownership definitions would have been to evaluate average unit pricing specifically for condominium apartments, rather than all housing types.

2.2.8 Timing of Affordable Housing Sales

The financial analysis assumes that affordable ownership units are sold on the same timeline as market units. While a detailed implementation strategy for the potential IZ policy has not been established, a more conservative approach would have been to assume that these units would be sold closer to project completion, potentially meaning that a higher number of market units would need to be sold as part of a pre-sale program. As these operational decisions of the policy are established, this assumption may warrant revisiting.

3.0 Market Feasibility Study Report Findings and Recommendations

3.1 Market Feasibility Study Report Findings

The key finding of the Market Feasibility Study Report is that in central and western submarkets, a 5% rate of inclusion for condominium tenure projects is viable within the framework of the methodological choices and assumptions which are presented. We note that the 5% threshold is most critical given that recent policy revisions proposed through Provincial Bill 23 cap the application of IZ at this set aside rate. Based on our experience and understanding of market dynamics in Hamilton, we believe that this finding is reasonable from a land economics perspective. The analysis presented also appropriately considers a range of additional sensitivities which might impact costs or revenues within a reasonable degree of variance. In these scenarios the results are consistent with our expectations from a land economics perspective.

In some instances, it is demonstrated that higher rates of inclusion may be viable in condominium apartment projects in strong submarkets. We concur that there is a correlation between market strength and the potential for higher rates of affordable inclusion. However, we expect that some minor modifications to the modeling as noted earlier (i.e., longer presale timing, construction timing, phasing, underlying land value, etc.) may impact viability at higher set-aside rates. Notwithstanding this, the prevailing policy framework may preclude the application of IZ above a 5% rate in the first place.

The Market Feasibility Study Report found that that purpose-built rental projects are more sensitive to a potential IZ policy. This too is consistent with our experience and the economic realities facing high density rental projects in Ontario.

Throughout the Market Feasibility Study Report's methodology, findings, and recommendations there is discussion related to the author's quantification of the 'effective fee' or 'cost' of delivering an IZ unit. We understand that this is representative of the delta between a project's net income with and without IZ, expressed either per unit of affordable housing, or per unit overall (with the denominator being the total unit count). In discussions with UM, we understand that it was not the author's interpretation that this metric was required as an output of the Market Feasibility Study Report. Rather, we understand that the metric was included to highlight the relative cost effectiveness of IZ versus other strategies for delivering affordable units (although an exploration of alternatives was not within the scope of the Market Feasibility Study Report).

We would suggest that the choice of net income as the metric for this calculation may warrant reconsideration given that the Market Feasibility Study Report's measure of viability for IZ policy is established using land value as the key determinant. Generally, we found limited utility in the 'effective fee' or 'cost' discussion within the report. It would be our suggestion that greater consideration be given to the rate of land value change or magnitude of impact be introduced into the analysis within an expanded discussion related to housing supply considerations as new policy is introduced. This would particularly be relevant from the perspective of developers who currently own land and cannot adjust the purchase price of their site, but who might face an IZ policy in the future,

as well as for existing landowners who may have preconceived expectations around the value of their lands.

3.2 Market Feasibility Study Report Recommendations

The report recommends that a 5% rate of inclusion be considered for condominium development. However, the results of the analysis demonstrate that this level of inclusion may not be viable in all submarket locations. We suggest that the authors include an expanded discussion related to the potential benefits or impacts to housing affordability, impact on land supply and pace of development activity as a result of this choice. A fulsome discussion of potential impacts – particularly as it relates to weaker submarket areas – would be beneficial to support the City in its policy decisions, and to establish an implementation strategy that seeks to mitigate potential near-term impacts in these areas.

The Market Feasibility Study Report recommends that IZ only be applied to purpose-built rental developments if paired with "significant incentives." We recommend that this discussion be expanded to in fact test potential incentive approaches to ensure that the tools available to the City are meaningful enough to support a viable rental project, or to re-instate results that would be in line with a market rate project. We expect that in some cases the tools available to the City may not be sufficient to support these outcomes. If true, the recommendation may warrant further revisiting within the context of rental housing supply and housing needs overall. As the analysis demonstrates, the development of market rate purpose-built rental development is often challenging from an economic perspective, the impacts associated with applying IZ to purpose-built rental projects may not be worthwhile, even with incentives applied.

The Market Feasibility Study Report recommends that offsets be considered for rental and condominium projects to offset the costs of IZ. Again, we recommend that the discussion of incentives be expanded to more fully establish a rationale for their application and to support more detailed recommendations around the types of magnitude of incentive that are being recommended for consideration. The Market Feasibility Study Report's results demonstrate that IZ can be viable at the recommended rate of inclusion for condominium projects in stronger market areas. The report could be clearer in its discussion of recommendations regarding incentives to highlight whether it is thought that even these viable circumstances warrant offsetting measures, or where there are specific instances where targeted offsets are being recommended. Further, alignment with PMTSA plans and implementing zoning should be considered; the Market Feasibility Study Report highlights potential height bonuses and parking reductions which may or may not be brought forward in future planning work along the LRT corridor.

We agree with the Market Feasibility Study Report's assertion that strategies involving all levels of government are needed to solve the myriad of issues facing housing affordability; IZ is not a 'silver bullet'. The recommendations also suggest that the City consider the use of surplus public land to support the development of new affordable housing. Both statements are valid. Within Hamilton's market context and the framework proposed via Bill 23, IZ represents but one tool that, over time, could have a modest contribution towards increasing hosing affordability.

While we agree that cost effectiveness and value for money should be considered as new policies are being developed and implemented, we recommend that greater clarity be introduced within the recommendation within the Market Feasibility Study Report that the City explore whether there are other more cost-effective solutions for the delivery of affordable housing. This could be interpreted as justification to not pursue the policy altogether. The analysis demonstrates that the impact or cost of IZ would be borne by the private sector through the land market, and at a 5% rate of inclusion, the report finds these impacts to be viable in several submarket locations. Therefore, the only costs that would be borne by the City in these instances would be those relating to the administration of the IZ policy itself, potentially making the approach highly cost-effective from the municipality's perspective.

NBLC would recommend that further clarity and detailed discussion be provided to articulate the rationale for recommendations within the report. It is our view that the Market Feasibility Study Report's recommendations could be expanded to include further discussion relating to the crafting of policy and its implementation in the market. We suggest that greater discussion surrounding the ultimate timing of transit infrastructure, PMTSA plans, and implementing zoning be considered and that greater discussion around land value impacts and hosing supply risks and mitigation strategies be considered in order to support the City in its development of its ultimate strategy for policy implementation. The UM analysis is thorough and detailed, the results from this modeling could be used to develop clear guidelines and implementation strategies so that the market can clearly understand policy formulation expectations, as well as housing supply and cost implications.

4.0 Conclusions

Based on our review of the UM report and supporting financial analysis, we generally support the methodological choices, major assumptions, and findings of the analysis. We do recommend that the report consider refinements to certain assumptions and expand its discussion of key findings and recommendations to more fully articulate the range of policy implementation choices available to the City of Hamilton. Within the context of Bill 23 and the proposed introduction of a 5% maximum rate of inclusion, the results of the analysis appear to be reasonable and reliable. The recommended refinements and enhancements to the report are intended to support the overall defensibility of recommendations. In summary:

- The structure of the model is valid and appropriate for considering the relative viability impacts of a potential IZ policy. The use of land value as a measure of risk and viability is a reasonable and appropriate methodological choice. This approach has been utilized in other IZ feasibility assessment reports in Ontario and elsewhere. Further, our high-level review of arithmetic within the sample of pro forma work provided indicates that the analysis is free of material errors.
- Most major assumptions requiring professional judgement, external sources of data and application within the model are reasonable. We suggest that additional supporting research be considered to enhance the defensibility of underlying land value assumptions which are used for comparison to development pro forma results and are the basis for establishing viability in each selected IZ permutation and sensitivity test.
- We offer some recommendations in this peer review as it relates to refinements related to prototype scale and phasing, pre-construction absorption timelines, and certain cost assumptions.
- We generally support the Market Feasibility Study Report's findings and recommendations and suggest that greater discussion of impacts related to the magnitude of land value impacts, timing of policy and housing supply considerations be incorporated. An expanded discussion on recommended offsets and implementation strategies would also be beneficial. Further, it is recommended that discussion related to the 'effective fee' or 'cost' of IZ be revisited to reflect land value impacts.

Overall, we find that the core elements of analysis and resulting recommendations are sound and reasonable. It is our view that the report addresses the requirements set out in Ontario Regulation 232/18 with respect to the assessment report which is required as a foundation for Inclusionary Zoning policies.

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